

**No.3/19/2013-DPE (MoU)**  
**Government of India**  
**Ministry of Heavy Industries & Public Enterprises**  
**Department of Public Enterprises**  
**(MoU Division)**  
**Web-site: <http://dpemou.nic.in/>**

**Public Enterprises Bhavan,**  
**Block No. 14, 3rd Floor,**  
**CGO Complex, Lodhi Road,**  
**New Delhi -110 003**  
**Dated: 11<sup>th</sup>, November 2013**

**OFFICE MEMORANDUM**

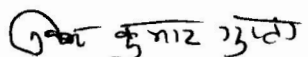
**Subject: Guidelines for Memorandum of Understanding (MoU) for the year 2014-15.**

Please find attached herewith a copy of the Guidelines for drafting of MoU for the Financial Year 2014-15. 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 2014-15 on the basis of the said Guidelines.

3. An advance copy of the draft MoU for 2014-15, including Annexures and a copy of the latest Annual Plan, Annual Budget, Corporate Plan along with details specified in MoU guidelines 2014-15, of the CPSE and its Subsidiary companies, may be sent directly to DPE in hard and soft copy by **9<sup>th</sup> December 2013**. 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 **20<sup>th</sup> December 2013**. The approved copies with all documents/Annexures are to be sent by CPSEs to the Task Force members of the concerned Syndicate Group well in advance before the date of MoU Negotiation Meetings.

Modifications, if any, in these Guidelines will be issued before the negotiation meetings of CPSEs.

  
(Mukesh Kumar Gupta)  
Director (MoU)  
Tel: 011-2436 0841  
E-mail: [mou-dpe@nic.in](mailto:mou-dpe@nic.in)

To:

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

Copy to:

03. Staff Officer to Cabinet Secretary, Cabinet Secretariat
04. Secretary Performance Management, Management Division, Cabinet Secretariat
05. Secretary, Planning Commission
06. Secretary, MOSPI

## **Guidelines for Memorandum of Understanding (MoU) for the year 2014-15**

1. **Applicability:** All CPSEs (Holding as well as Subsidiaries), without exception, are required to sign MoUs. The Apex/Holding companies will sign MoUs with their administrative Ministries/ Departments, while the Subsidiary companies will sign MoUs with their respective Apex /Holding companies on lines similar to that of the MoU signed between a CPSE and its administrative Ministry/Department.
2. **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 shall send the proposal with its recommendations to DPE by 20<sup>th</sup> December, 2013.
3. **Guiding Principles for setting targets:** MoU targets should be realistic yet growth oriented inspirational and 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 fixed keeping in consideration the targets/goals indicated in the Plan document or during annual plan discussions and as per allocations approved by Ministry of Finance. Directions by statutory or regulatory bodies, as applicable should also be factored in. Targets 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 mind.
4. **Financial Targets (Static parameters):** The basic targets of relevant financial parameters should be determined on the basis of (i) projection based on last five years' actuals (redrafted based on revised schedule of financial statements as per Companies Act, 2013 or other relevant statutes) (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 (v) targets fixed by Planning Commission/Ministry of Finance. Definitions of the Financial Parameters should be according to those mentioned in **Annexure I** of these guidelines.
5. **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. CPSEs should specify the documentary evidence they would rely upon as proof of performance as well as the source/agency of such documentary evidence in the MoU. Internal documents submitted by CPSEs for evaluation of parameters should be certified by the concerned CPSEs' Board level officials. 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/ not in proper format to DPE.
6. The total number of parameters, both financial and non-financial, chosen for MoU should not exceed 14 (i.e. 6 from Financial and 8 from Non-Financial categories) for CPSEs adopting Common MoU Assessment Format. The number of parameters for Section 25, sick and loss making, under construction CPSEs should not be more than 16, as far as possible. The Task Force will also ensure that CPSEs lay emphasis on relevant and significant parameters.

7. **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 fixed so that they are jointly and severally responsible for their performance and achievement of the targets. In addition to the regular syndicate meetings, either one joint meeting of the CPSEs may be held, or separate meeting(s) of concerned CPSEs, Railways and/ or Administrative Ministries, DPE and the Convenors of their respective Task Force Syndicates be convened to sort out cross cutting issues.
8. **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 CPSE, the Task Force on MoU may consider offset and give their recommendations to DPE. Final decision on such cases will be taken by High Powered Committee (HPC) on MoU.
9. **Task Force/ Expert Group:** Task Force for 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 MoU targets of CPSEs before the beginning of the financial year and performance evaluation of MoUs after completion of that year. For the year 2014-15, CPSEs have been categorized into 13 syndicate groups. Sick and Loss Making CPSEs will be included in their respective domain related syndicates. Task Force on MoU for each syndicate will have a maximum of 6 members. Two experts groups, one each for finance / accounts and other for non - financial matters have been set up to provide advice to the Task Force for fixing the MoU targets and evaluation thereof. 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>.
10. **Meeting of Standing Committee:** Before the negotiation meetings of Task Force on MoU, meetings of the Standing Committee will also be held to discuss issues important/relevant to the MoU exercise.
11. **Participation by Administrative Ministry/CPSEs:** The representative of the administrative Ministry, not below the rank of Joint Secretary, must be present in every negotiation meeting. The CPSE team for the negotiation meetings should be restricted to CMD and Board level functionaries.
12. **Pre-negotiation meeting of Task-Force:** Each Task Force of the syndicate shall hold one or more pre-negotiation meeting(s) well before the start of negotiations to discuss the draft MoUs received from all CPSEs in their syndicate and with the member resource group and DPE representatives. Queries and suggestions for revision of MoU parameters & their, weightage etc., if any, will be sent to the CPSEs/administrative Ministry through DPE, giving a reasonable period for them to respond before the negotiation meeting.
13. **Time-lines:** An advance copy of the draft MoU for 2014-15, including Annexures and a copy of the latest Annual Plan, Annual Budget, Corporate Plan along with details specified in MoU guidelines 2014-15, of the CPSE and its Subsidiary companies, should be sent directly to DPE in hard and soft copy by **9th December 2013**. The main copy, after the approval of their Board, should be sent to DPE, Planning Commission and Ministry of Statistics and Programme Implementation through the Administrative Ministry/Department by **20<sup>th</sup> December 2013**. The approved copies with all documents/Annexures are to be sent by CPSEs to the Task Force members of the concerned Syndicate Group well in advance before the date of MoU Negotiation Meetings.

Submission of copy of MoU signed between CPSE and Administrative Ministry/ Department and between Subsidiary Company and Apex /Holding CPSE should be done, within the target date of **25<sup>th</sup> March 2014**.

Timely submission of Performance Evaluation Report for the year 2013-14 on the basis of Audited data (Statutory Audited Accounts) of the CPSE in revised Schedule and documentary evidence in support of achievement of non-financial parameters, to DPE and Task Force Members separately, after approval of the Board of CPSE and through their Administrative Ministry/Department for the year 2013-14 should be done within the **target date of 31<sup>st</sup> August, 2014** and for the year 2014-15 within the **target date of 31<sup>st</sup> August, 2015**.

14. CPSEs (Holding as well as Subsidiaries) under the administrative control of the Ministry/Department may be advised to submit draft MoUs for the year 2014-15 on the basis of the MoU Guidelines, which are also available on DPE website **<http://www.dpemou.nic.in>**.



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**Memorandum of Understanding (MoU)** is a negotiated agreement and contract between the Administrative Ministry and the Management of the Central Public Sector Enterprise (CPSE) to fix the targets before the beginning of the financial year and is intended to evaluate the performance of the CPSE after the completion of the Financial Year vis-à-vis the targets fixed.

## **1. MISSION, VISION AND OBJECTIVES OF THE CPSE**

### **1.1 MISSION/VISION**

Mission/Vision 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**

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.

## **2. COMMITMENTS / ASSISTANCE FROM THE GOVERNMENT**

- 2.1 Performance of Central Public Sector Enterprises (CPSEs) is assessed with reference to the commitments made and actual assistance given to CPSEs by Administrative Ministries/Departments. This is to be quantified and a Report along with Performance Evaluation Score Sheet of CPSEs is to be submitted by Administrative Ministries/Departments to DPE which will be reviewed by HPC. 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 targets based on these Commitments/assistance should not be conditional or provisional. The commitments/assurances in the MoU document should be incorporated appropriately in the Result Framework Documents (RFD) of the concerned administrative Ministry/Department.
- 2.2 Considering the importance of non-official Directors (NOD's), specific commitment from the administrative ministries/departments regarding timely action on filling up position of Non-official directors on the board of concerned CPSE shall be incorporated in the signed MoUs of the concerned CPSEs, wherever applicable.

## **3. PERFORMANCE ASSESSMENT TARGETS AND THEIR DETERMINATION**

- 3.1 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 "Sick and Loss Making CPSEs" and "Section 25 CPSEs", the weights for financial and non-financial parameters are 40% and 60% respectively. In case of CPSEs under construction "Project related parameters" and "Dynamic parameters" shall have weights of 60% and 40% respectively.

- 3.2 With a view to distinguish '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'.
- 3.3 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.
- 3.4 Parameters and their weights would be finalised in MoU Negotiation meeting by Task Force syndicates, and the final decision would be with the Convenor.
- 3.5 CPSE will give information on national/ international benchmarks pertaining to financial/ non-financial parameters, as applicable. Task Force will take these benchmarks into consideration while fixing MoU targets.

### **Financial Targets**

- 3.6 **Definitions of Financial Terms:** All the financial terms should conform to definitions given in Annexure – I.
- 3.7 CPSE will give a self -certification (**Annexure- VII**) to the effect that while arriving at the targets of the financial parameters, the definitions and norms laid down in the MoU guidelines of DPE have been strictly and scrupulously followed and no deviations have been made.
- 3.8 The targets set should be realistic, growth oriented and aspirational. They should be consistent with the Budget for 2014-15 and in conformity with those approved by the Planning Commission, Ministry of Finance, 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 reasons for such under pitching and gross over achievements.
- 3.9 To determine the basic target (BT) for financial parameters, the actual achievement of past 5 years (**Annexure-VI**) and factors such as capacity and its expansion, business environment, projects under implementation, government policies, external factors and Company's growth forecast should be considered. Further national/ international benchmarks will also be considered, wherever applicable. 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 actual performance of last 3 years' could be considered. For CPSEs which have recently started their business, the projection shall be done using the available data.

### **Non-Financial/Dynamic Targets**

- 3.10 A CPSE can select non-financial parameters which are considered crucial to its functioning and fulfillment of its objectives.in consultation with the administrative Ministry/Department However, non-financial targets fixed should be SMART (Specific, Measurable, Attainable, Results-oriented, Tangible), and 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 specify the documentary evidence they would rely upon as proof of performance, as well as the source/agency of such documentary evidence. The intention is to ensure strict, transparent and objective evaluation.

- 3.11** 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 parameter accordingly. Minimization of Audit Qualification may be introduced as a parameter on the discretion of the task force. Further, if the audit report of the CPSEs has observation/ qualification on internal control, 'Preparation of Internal Control Manual'/ 'Implementation of Internal control Procedure in consultation with external agencies' may be introduced as MoU Parameters. For evaluation, the CPSE should include the Audit Qualification with its financial impact, if any.
- 3.12 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 it is felt necessary and may also club the parameters together under Non-financial parameters.
- 3.13 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.
- 3.14 Capacity Addition**  
CPSE/ Administrative ministry may select Capacity Addition as parameter based on their mission/vision statement, business plan and availability of financial resources.
- 3.15 Project Management & Implementation**  
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 new/ on-going projects to be completed during the year, milestones to be reached for new/ on-going projects that cannot be completed during the year should be specifically mentioned.
- 3.16 CAPEX**  
CPSEs are encouraged to make Capital Expenditure and include it as a parameter in MoU. This parameter is included for CPSEs which have accumulated Cash surpluses and there is a need/demand for capacity addition and management considers it as necessary/viable.
- 3.17 Corporate Social Responsibility (CSR) & Sustainability**  
"Corporate Social Responsibility & Sustainability" included under the 'Non-financial parameters" can be assigned a weightage of upto 3 marks. Guidelines issued by DPE for this purpose should be followed for deciding the parameters under Corporate Social Responsibility & Sustainability.

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

### 3.18 Research & Development (R&D)

“Research & Development” a ‘Non-financial parameter’ may be included for CPSEs desirous of taking up R&D projects. R&D is not meant as fundamental scientific research (though it is not excluded). It should be linked to improvements in operational efficiencies in all activities, including manufacturing, processing, product development, packaging, marketing, and even work processes, through innovation, adaption, and application of available and emerging technologies and techniques. The Task Force in discussion with the CPSEs during the negotiation meetings will finalize projects/activities from the list given in the R&D Guidelines issued by DPE.

A panel of renowned scientists and R&D experts will be constituted by DPE comprising of experts from CSIR, DRDO and other eminent experts to conduct audit of R&D work of CPSEs and to recommend incentives for good work wherever noticed.

### 3.19 Human Resource Management (HRM)

“Human Resource Management” remains an element under the ‘Non-financial parameters’. Relevant Sub-Parameters under HRM should be selected from the HRM guidelines. The Task Force may include parameter of succession planning as a mandatory component under HRM especially for Maharatna and Navratna CPSEs.

### 3.20 The guidelines for Corporate Social Responsibility (CSR) & Sustainability, Research & Development and Human Resource Management are available on the website of MoU Division of DPE (<http://www.dpemou.nic.in/>).

### 3.21 Negative Marking for Non-Compliance of Corporate Governance

Department of Public Enterprises has issued guidelines on Corporate Governance vide O.M. No.18(8)/2005-GM Dated 14<sup>th</sup> May 2010. Listed CPSEs will follow both SEBI Guidelines and DPE guidelines while non-listed CPSEs would require to mandatorily follow the DPE Guidelines on Corporate Governance. In the MoU for 2014-15, “Compliance of Corporate Governance” will not be a parameter, however, for non-compliance, negative marking will be imposed and MoU Score will be increased in the following manner:

Sl.	Annual Score	Grading	Penalty Marks	Difference in Score From ‘Excellent’ Grade
01	85 % and Above	Excellent	0	0.00
02	75%-84%	Very Good	0	0.00
03	60%-74%	Good	0.5	0.02
04	50%-59%	Fair	0.5	0.02
05	Below 50%	Poor	1.0	0.04

If a CPSE fails to submit the Self-evaluation report of Corporate Governance through Administrative Ministry, its score will be inflated accordingly.

### 3.22 Negative Marking for Non-Compliance of other Guideline/Regulations

#### a) Procurement from MSME

CPSEs will have to follow the Public Procurement Policy for Micro, Small and Medium Enterprises (MSMEs) Order, issued vide D.O. No. 21(1)/2011-M.A. dated April 25, 2012,

and non-compliance with the aforesaid order will be penalized up to 1 mark at the discretion of Task Force at the time of MoU Evaluation.

**b) Non-Compliance of DPE Guidelines**

CPSEs have to give a certificate regarding implementation of Guidelines issued by DPE within prescribed timelines and format specified through its administrative ministry as per details in OM No. DPE/14(38)/10-Fin Dated 28<sup>th</sup> June 2011. Non-compliance of DPE Guidelines determined on the basis of certificate submitted will be penalized up to 1 mark at the discretion of Task Force at the time of MoU Evaluation.

**c) Other Non-Compliance**

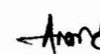
Non-compliance of any directives of government including submission of data for Public Enterprises (PE) survey, MOSPI data updation on their website etc. and non-compliance of requirements of regulators in serious cases may be penalized upto 1 mark depending on the degree and seriousness of non-compliance. CPSE have to give a certificate regarding compliance of directives of Government and requirement of regulators (Annexure VIII).

**4. ENCLOSURES WITH DRAFT MoU**

- 4.1 CPSEs should enclose the Draft MoUs in the relevant format along with all the annexures /documents mentioned in the MoU Guidelines to DPE as well as to Task Force members of the relevant syndicate.
- 4.2 Key financial indicators of CPSEs relating to last five years along with MoU targets for 2014-15 should be submitted in format enclosed. (Annexure VI)
- 4.3 **MoU Assessment Format for different sectors**  
All CPSEs (except section 25 companies, sick/ loss making CPSEs and CPSEs under construction) should choose relevant parameters given in common format (Annexure-II) with the approval of the Task Force during negotiation meetings. Section 25 companies, sick/ loss making CPSEs and CPSEs under construction will adopt the formats given at Annexure-III, Annexure-IV and Annexure-V respectively.
- 4.4 The Summary Records of Discussion (SRD) minutes of the MoU negotiation meetings (2013-14) along with the Action Taken Report (ATR) on the MoU 2013-14 issued by DPE should be annexed with the draft MoU 2014-15.
- 4.5 CPSEs should submit latest copies of Corporate Plan, Annual Plan, Annual Budget, and Annual Report for 2012-13 and Reviewed Financial results for the period up to September 2013. Similarly, performance up to Quarter ending December 2013 should be made available before/during the negotiation meetings.

**5. MoU SIGNING PROCESS**

- 5.1 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.
- 5.2 **Timely signing of MoU for the year 2014-15:** Submission of copy of MoU signed between CPSE and Administrative Ministry/ Department and between Subsidiary Company and Apex /Holding CPSE should be done, within the target date of **25<sup>th</sup> March**



2014.

6. **MOU EVALUATION**

- 6.1 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 for the year 2013-14 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 31<sup>st</sup> August, 2014. CPSEs should submit the documentary evidence as proof of performance as the source/agency provided in the MoU. Internal documents submitted by CPSEs for evaluation of parameters should be certified by the concerned CPSEs' Board level officials.
- 6.2 After completing the evaluation of the performance of the MoU signing CPSEs with the assistance and expertise of 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 approves the evaluation done by the Task Force, the composite score and the ratings of the CPSEs become final.
- 6.3 Timely submission of Performance Evaluation Report for the year 2013-14 on the basis of Audited data (Statutory Audited Accounts) of the CPSE in revised Schedule and documentary evidence in support of achievement of non-financial parameters, to DPE and Task Force Members separately, after approval of the Board of CPSE and through their Administrative Ministry/Department for the year 2013-14 should be done within the **target date of 31<sup>st</sup> August, 2014** and for the year 2014-15 within the **target date of 31<sup>st</sup> August, 2015**.
- 6.4 **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  $1 + (\text{Excellent-Actual}) \div (\text{Excellent-Very Good})$  and so on.
- 6.5 **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



7. **MOU EXCELLENCE AWARDS**

- 7.1 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 **sick/loss making CPSE on way to turnaround**). All other 'Excellent' performing CPSEs get MoU Excellence certificates.
- 7.2 DPE vide O.M. No. 3(13)/2006-DPE(MoU) date 20<sup>th</sup> August 2007 has 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) dated 7<sup>th</sup> January 2008 and O.M. No. 3/(29)/2007-DPE(MoU) dated 11.11.2013 has issued the methodology to be adopted for the selection of "best listed" and "**sick/loss making CPSE on way to turnaround**" for Excellence Awards.

\*\*\*\*\*

—Award

## **8. LIST OF ANNEXURES**

**Annexure-I:** Definitions of Financial Parameters

**Annexure-II:** MoU Assessment Format for CPSEs other than “Section 25 CPSEs”, “Sick & Loss making CPSEs” and “CPSEs under Construction”

**Annexure-III:** MoU Assessment Format for Section 25 CPSEs

**Annexure-IV:** MoU Assessment Format for Sick & Loss making CPSEs

**Annexure-V:** MoU Assessment Format for CPSEs under Construction

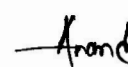
**Annexure-VI:** Trend of CPSE’s Performance on Financial Parameters for last 5 Years

**Annexure-VII:** Self-declaration/Certification by CPSE

**Annexure-VIII:** Self-declaration for compliance of directives of Government & Regulators

**Definitions of Financial and Accounting Terms**

1. **Sales Turnover:-** 'Sales Turnover' may be defined as the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods and from rendering of services. It is measured by the charges made to customers or clients for goods supplied and services rendered to them. In an agency relationship, it is the amount of commission and not the gross inflow of cash, receivables or other consideration. In case of contractors, the amount of contract revenue recognized as revenue in the statement of profit and loss as per the requirements of AS 7 (revised 2002), should be considered as 'Sales Turnover'.  
It may further be noted that the term 'Sales Turnover' does not include amounts collected by the company on behalf of others such as sales tax, value added tax etc. but includes elements of excise duty. Further, inter-divisional transfers, would also not form part of sales turnover.  
**Note:** For the purpose of deciding Memorandum of Understanding (MoU) target under 'sales turnover' parameter for the purpose of Department of Public Enterprises (DPE), it shall not include excise duty.
2. **Gross Operating Margin:-** 'Gross Operating Margin' is the excess of the proceeds of goods sold and services rendered during a period over their cost, before taking into account administration, selling, distribution, financing expenses and taxes. When the result of this computation is negative it is referred to as 'gross loss. It will not include 'other incomes'.
3. **Gross Operating Margin Rate:-** Gross Operating Margin as a percentage of Sales Turnover.
4. **Profit after Tax (PAT):-** The excess of total revenues over total expenses including depreciation and amortisation, interest, extraordinary items, prior period items and taxes (including deferred taxes).
5. **EBITDA:-** EBITDA is the excess of total revenues over total expenses for a period before providing for depreciation and amortisation, interest on borrowings, taxes (including deferred taxes), extraordinary and prior period items.
6. **Earnings Before Interest Tax (EBIT):-** Excess of total revenues over total expenses before providing for interest, taxes (including deferred taxes), extraordinary items and prior period items.
7. **Cash generation from Operations:-** Cash flows from operations is primarily derived from the principal revenue producing activities of the enterprise. As per the principles laid down in the *Accounting Standard (AS) 3, Cash Flow Statements*, operating cash flows may be calculated by adjusting profit after tax (PAT) for the effects of:
  - (i) changes during the period in inventories and operating receivables and payables;
  - (ii) non-cash items such as depreciation, provisions, deferred taxes, and unrealised foreign exchange gains and losses; and
  - (iii) all other items for which the cash effects are investing or financing cash flows.
8. **Gross Block:-** 'Gross Block' of fixed assets represents historical cost or other amount substituted for historical cost (i.e. revalued amounts) in the books of account or financial statements.



9. **Depreciation** is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortisation of intangible assets whose useful life is predetermined.
10. **Net Block:-**Gross Block shown net of accumulated depreciation and impairment loss, is termed as 'Net Block'.
11. **Share Capital:** - Paid up capital is the aggregate amount of money paid or credited as paid on the shares and/or stocks of a corporate enterprise.
12. **Reserves & Surplus :-**  
**Reserve:** The portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability. The reserves are primarily of two types: capital reserves and revenue reserves.  
**Surplus:** Surplus i.e. balance in the Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves, etc.
13. **Net Worth:** - Net worth means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.
14. **Inventories** are assets:  
i) held for sale in the ordinary course of business  
ii) in the process of production for such sale;  
iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services
15. **Capital Employed:** - Capital employed shall comprise of net worth and long term borrowings but excluding Capital Work-in-Progress (CWIP) and all investments made.
16. **Extraordinary Items** are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.
17. **Prior Period Items** are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods
18. **Working Capital:-** The funds available for conducting day-to-day operations of an enterprise and represented by the excess of current assets over current liabilities.
19. **Trade Receivables:-** Dues arising only from goods sold or services rendered in the normal course of business.
20. **Average Capital Employed:-** Average of the opening and closing capital employed for a period of time.

*Anand*

Average Capital Employed = (Opening Capital Employed + Closing Capital Employed)/2

21. **Cost of Production/Conversion Cost:-** Cost incurred to convert raw materials or components into finished or semi-finished products. This normally includes costs which are specifically attributable to production, i.e., direct labour, direct expenses and subcontracted work, and production overheads as applicable in accordance with the absorption costing method. Production overheads exclude expenses which relate to general administration, finance, selling and distribution.
22. **Current Ratio:** It is the ratio of current assets to current liabilities.  
Current Ratio = Current Assets/Current Liabilities
23. **Debt Service Coverage Ratio:-** The ratio of Earning before Interest and Taxes (EBIT) to interest on long-term liabilities.
24. **Average No. of Days of Inventory:-**  
Average No. of Days of Inventory =  $365 / \text{Inventory Turnover Ratio}$ .  
Where, Inventory Turnover Ratio = Cost of goods sold/ Average Inventory.  
Cost of goods sold in manufacturing operations includes (i) cost of materials; (ii) labour and (iii) factory overheads; Selling and administrative expenses are excluded.  
Average inventory = (Opening Inventories + Closing Inventories)/2.  
**Note:** In cases where, the opening balance of inventory is nil, closing balance may be used to compute inventory turnover.
25. **Average Collection Period of Trade Receivables:-**  
Average Collection Period of Trade Receivables =  $365 * \text{Average Trade Receivables} / \text{Net Credit Sales}$   
Where, Average Trade Receivables = (Opening Trade Receivables + Closing Trade Receivables)/2  
**Note:** In cases where, the opening balance of trade receivables is nil, closing balance may be used to compute trade receivables period.
26. **Working Capital Turnover Ratio:-**  
Working Capital Turnover = Sales Turnover/Working Capital
27. **Current Assets:** An asset shall be classified as current when it satisfies any of the following criteria:  
(a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;  
(b) it is held primarily for the purpose of being traded;  
(c) it is expected to be realised within twelve months after the reporting date; or  
(d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.  
All other assets shall be classified as non-current.
28. **Current Liabilities:-** A liability shall be classified as current when it satisfies any of the following criteria:  
(a) it is expected to be settled in the company's normal operating cycle;  
(b) it is held primarily for the purpose of being traded;  
(c) it is due to be settled within twelve months after the reporting date; or

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- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

**MoU Assessment Format (Common for all CPSEs excluding Section 25 CPSEs, Sick & Loss Making CPSEs and CPSEs Under Construction)**

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)	
<b>1. Static/ Financial Parameters</b>								
<b>Mandatory parameters (sr no (i)-(iii))</b>								
<b>(i) Growth/ Size/ Activity (Two)</b>		18-24						
a) Sales Turnover, excluding interest and other income (Operating Turnover) (Sales Turnover shall not include excise duty, custom duty, VAT or any other duty, tax, etc.)	Rs.Cr.							
b) Gross Operating Margin or Gross Operating Margin Rate	Rs.Cr. %							
c) Loans sanctioned	Rs.Cr.							
d) Disbursements	Rs.Cr.							
<b>(ii) Profitability</b>		10-12						
a) PAT/Net Worth	%							
b) EBITDA/Net Block	%							
c) EBIT/Average Capital Employed	%							
<b>(iii) Costs and Output Efficiency</b>		8-10						
a) Sales Turnover/ Net Block	%							
b) PAT per Employee	Rs. Lakh							
<b>Optional Parameters (sr no (iv) &amp; (v))</b>								
<b>(iv) Liquidity/ Leverage</b>		8-10						
a) Current Ratio	Ratio							
b) Debt Service Coverage Ratio	Ratio							
<b>(v) Efficiency of Asset Use</b>		6-8						
a) Average No. Days of Inventory (Inventory Turnover Ratio)	No. of Days							
b) Average Collection Period of Trade Receivables (Debtors Turnover Ratio)	No. of Days							
c) NPA/ Loan Assets	%							
d) Average cost of funds or Interest rate spread	Rate Rate							
<b>Sub-total 1 (I to V)</b>		<b>50</b>						

Note: CPSEs may choose upto 6 financial ratios in total (from mandatory as well as optional group). Two ratios from sr no (i) are compulsory and CPSE would have to choose minimum two ratios from the remaining two mandatory groups. Task Force in consultation with CPSEs & administrative ministry may change the ratios and their weightage (within 50) after recording the reasons for the same.



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)	
<b>2. Dynamic/ non-financial Parameters</b>								
<b>(i) Corporate Social Responsibility &amp; Sustainability</b>		Upto3						
<b>(ii) Research &amp; Development</b>		2						
<b>(iii) Initiatives for Growth</b>		10-15						
a) Physical targets/output <u>or</u> No. of new orders/ projects b) <b>Corporate/strategic plan</b> – preparation/ determination/ identification of objectives/ goals c) Expansion/diversification/ acquisitions/joint ventures d) Brand building/ Marketing initiatives/new products/new markets e) Import substitution/ exports/ globalisation of operations f) Risk identification and mitigation								
<b>(iv) Project Management &amp; Implementation</b>		10-15						
a) Capacity Addition b) Number of new/ on-going projects to be completed during the year c) Milestones to be reached for new/ on-going projects that cannot be completed during the year. d) CAPEX (Targets in financial Terms to be achieved in financial year out of CWIP/Assets under construction.)								

<b>(v) Productivity and Internal Processes</b>		7-10						
a) Asset/ machine/ Facility Utilisation/ Downtime								
b) Product manufacture/ Product Cycle Time								
c) Measures taken to increase efficiency and productivity of manpower/ resources								
d) Benchmarking and fixation of targets to achieve the goals against benchmarking								
e) Market Share								
f) Customer satisfaction and redress of customer grievances								
g) Customer Focus - Customer Satisfaction Index and Complaints per unit of sales								
<b>(vi) Technology, Quality, Innovative practices</b>		5-10						
a) New Technologies/ improving existing ones/ other innovative practices								
b) Intellectual property – patents, trade-marks, copyrights								
c) Quality Management - methods like TQM, six Sigma and ISO, Baldrige Performance Excellence Criteria, etc.								
d) Safety Management - Safety incidents Index, reportable incidents								
e) Cyber Security - developing/setting up security systems; monitoring and detection of cyber security breaches								
<b>(vii) Human Resource Management</b>		Upto8						
<b>3. Sector Specific Parameter/ Enterprise Specific Parameter</b>		Upto5						
<b>Sub-total (2+3)</b>		<b>50</b>						
<b>Total (1+2+3)</b>		<b>100</b>						
CPSEs may choose upto 8 parameters from Dynamic/ non-financial Parameters. CPSEs cannot choose more than two parameters from each group. Task Force may change/modify the parameters and their weightage after consultation with the CPSE and administrative Ministry/Department providing reasons for the same, in such a way that the total weightage of non-financial parameter does not exceed 50. Parameters of CSR & sustainability, R&D and HRM are to be chosen in accordance with respective DPE guidelines and OM issued in this respect.								

**Means of verification (documentary evidence and source/origin of documents) in respect of all the parameters should be specified by CPSE in the Draft MoU itself.**

MoU Assessment Format for 'CPSEs registered under Sec. 25 of the Companies Act, 1956'								
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 Parameters								
(i) EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)	Rs. Cr.	10						
(ii) Disbursements	Rs. Cr.	12						
(iii) % of total resources mobilized from sources other than grant in aid of Government	%	04						
(iv) EBITDA / Total employment	Rs. Lakh	05						
(v) Recoveries as a % of amount due (current year)	%	04						
(vi) Recoveries as a % of amount overdue for varying years (accumulated)	%	05						
Sub-total 1 (i to vi)		40						
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)	
2. Dynamic Parameters								
(i) No. of Beneficiaries assisted during the year	No.	30-35						
(ii) No. of beneficiaries got assisted under schemes of other Government Departments or established institutions	No.							
(iii) % age of beneficiaries inspected during the year	%age							
(iv) % age of beneficiaries found during inspection to have possessed the assets created	%age							
(v) %age of assisted beneficiaries found during inspection to have crossed poverty line	%age							
(vi) No of target group provided Entrepreneurship Development / skill development programme that help them to secure employment	No.							
(vii) Partnership with Vocational institutes to train beneficiaries	No.	20-25						
(viii) Partnership with Government departments/established institutions to leverage the corporation's objectives/ schemes	No.							

(ix)	Strategic plan-preparation/ implementation	Timeli ne							
(x)	%age Reduction in Non- performing assets –year wise break up	%age							
(xi)	R&D (refer para 4.3.9 of R&D guidelines)								
(xii)	Human Resource Management		upto 5						
<b>3. Sector Specific Parameter/ Enterprise Specific Parameter</b>			upto 5						
<b>Sub-total (2+3)</b>			<b>60</b>						
<b>Total (1+2+3)</b>			<b>100</b>						

Task Force may change/modify the parameters and the allocation of weightage of dynamic parameter selected by CPSEs such that total does not exceed 60, in consultation with the CPSE and administrative Ministry/Department.

Means of verification (documentary evidence and source/origin of documents) in respect of all the parameters should be specified by CPSE in the Draft MoU itself.

MoU Assessment Format for 'Sick and Loss making CPSEs'								
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 Parameters								
(i) Sales Turnover, excluding interest and other income (Operating Turnover) (Sales Turnover shall not include excise duty, custom duty, VAT or any other duty, tax, etc.)	Rs. Cr.	8						
(ii) Gross Operating Margin <u>Or</u> Gross Operating Margin Rate	Rs. Cr. %	8						
(iii) Net Profit (PAT)	Rs. Cr.	5						
(iv) Net Worth	Rs. Cr.	5						
(v) Cash Generation from Operations	Rs. Cr.	5						
(vi) Working Capital Turnover Ratio	Ratio	3						
(vii) Average No. Days of Inventory (or, Inventory Turnover Ratio)	Days/ Ratio	3						
(viii) Average Collection Period of Trade Receivables (or, Debtors Turnover Ratio)	Days/ Ratio	3						
Sub-total 1 (i to viii)		40						
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)	
2. Dynamic Parameters								
(i) Physical targets/output <u>or</u> No. of new orders/ projects		30-45						
(ii) Customer Satisfaction								
(iii) Project Implementation								
(iv) Technology Up-gradation								
(v) Preparation / Implementation (as the case may be) of the Business/ Revival plan								
(vi) Generation of funds from non-performing assets		25-45						
(vii) Revenue Generation from Resources Available with the Company								
(viii) Human Resource Management-HRM								
(ix) R&D-Quality improvement, energy efficiency, cost reduction, development of new products, improvement in product & processes (refer para 4.3.9 of R&D guidelines)								
(x) CSR and Sustainability								

<b>3. Sector Specific Parameter/ Enterprise Specific Parameter</b>		upto 5						
<b>Sub-total (2+3)</b>		<b>60</b>						
<b>Total (1+2+3)</b>		<b>100</b>						

Task Force may change/modify the parameters and the allocation of weightage of dynamic parameter selected by CPSEs such that total does not exceed 60, in consultation with the CPSE and administrative Ministry/Department.

Means of verification (documentary evidence and source/origin of documents) in respect of all the parameters should be specified by CPSE in the Draft MoU itself.

MoU Assessment Format for 'CPSEs Under Construction'								
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)	
<b>1. Project Related Parameters</b>								
(i) Physical Achievement	%							
(ii) Financial Achievement	Rs. Cr.							
(iii) Regulatory Clearances								
(iv) Project Implementation								
<b>Sub-Total (i to iv)</b>		<b>60</b>						
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)	
<b>2. Dynamic Parameters</b>		<b>40</b>						
(i) Corporate Plan/Vision								
(ii) Corporate Social Responsibility & Sustainability								
(iii) Human Resource Management- HRM								
(iv) Research & Development								
<b>Sub-Total (i to v)</b>								
<b>3. Sector Specific Variables/ Enterprise Specific Variables</b>								
<b>Total (1+2+3)</b>		<b>100</b>						

Task Force may change/modify the financial & non-financial parameters after consultation with the CPSE and administrative Ministry/Department and after recording reasons for the same, in such a way that the total weightage of financial & non-financial parameter does not exceed 60 & 40 respectively.

Means of verification (documentary evidence and source/origin of documents) in respect of all the parameters should be specified by CPSE in the Draft MoU itself.



**Annexure VI**  
**(Rs. in Crore)**

**TREND OF CPSE's PERFORMANCE ON FINANCIAL PARAMETERS FOR THE  
LAST FIVE YEARS**

Particulars	2009-10		2010-11		2011-12		2012-13		2013-14		2014-15	Latest Benchmarking Details available
	MoU	ACT UAL	MoU	ACT UAL	MoU	ACT UAL	MoU	ACT UAL	MoU	Projected for 31.3.14	Projected	
Capacity Utilisation (for each plant separately)												
Production (in Qty.)												
Production (in Rs. Cr.)												
<b>Profit &amp; Loss Statement Items</b>												
Sales Turnover, excluding interest and other income (Operating Turnover) (Sales Turnover shall not include excise duty, custom duty, VAT or any other duty, tax, etc.)												
Interest and other income												
Gross Operating Margin Rate (%)												
Gross Operating Margin												
EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)												
Depreciation												
EBIT (Earnings Before Interest and Taxes)												
Interest Expenses												
Prior period Expenses												
Extra Ordinary Items												
Any other expenses												
Profit Before Tax												
Tax												
Profit after tax												
Dividend Paid												

Profit transferred to Statutory reserves												
Any Other Item												
Profit Transferred to Balance Sheet												
<b><u>Balance Sheet Items</u></b>												
Gross Block												
Less: depreciation												
<b>Net block</b>												
Share Capital of CPSE												
Reserves & Surplus of CPSE												
Less: deferred revenue exp. / pre-acquisition loss												
Less: Profit & Loss A/c (Loss figure)												
<b>Net worth of CPSE</b>												
<b>Investments</b>												
Total Current assets												
Total current liabilities & provision												
<b>Net current assets</b>												
<b>Capital employed ( Net block + net current assets)</b>												
<b>Total long-term debt (loan funds)</b>												
<b>Total Assets</b>												
No of employees of CPSE												
<b><u>Ratios</u></b>												
PAT/Net Worth												
EBITDA/Net Block												
EBIT/Average Capital Employed												
PAT per Employee (Rs. Lakhs)												
Current Ratio												
Debt Service Coverage Ratio												

Operating Cash Flow												
Average No. Days of Inventory												
Inventory Turnover Ratio												
Average Collection Period of Trade Receivables												
Debtors Turnover Ratio												
Loans sanctioned												
Disbursements												
NPA/ Loan Assets												
Average cost of funds												
<b><u>Additional for 'CPSEs registered under Sec. 25 of the Companies Act, 1956'</u></b>												
Disbursements												
% of total resources mobilized from sources other than grant in aid of Government												
EBITDA / Total employment												
Recoveries as a % of amount due (current year)												
Recoveries as a % of amount overdue for varying years (accumulated)												
<b><u>Additional for 'Sick and Loss making CPSEs'</u></b>												
Cash Generation from Operations												
Working Capital Turnover Ratio												
<b><u>Additional for 'CPSEs under Construction'</u></b>												
Physical Achievement												
Financial Achievement												

**CPSEs should provide all the information as mentioned above, wherever applicable to them.**

**Annexure-VII**

**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 2014-15. In case, any deviation is found at the time of appraisal of performance, DPE is free to evaluate as per MoU Guidelines. CPSE has no right of claim in this regard.

Authorised Signatory

**Annexure-VIII**

**Self-declaration for Compliance of Directives of Government & Regulators**

It is hereby certified that the CPSE has complied all the directives of government and requirements of regulators. In case, any deviation is found at the time of appraisal of performance, DPE is free to evaluate as per Guidelines, directives issued by the government/regulators. CPSE has no right of claim in this regard.

Authorised Signatory