

No.M-03/0003/2020-DPE (MoU)  
Government of India  
Ministry of Heavy Industries & Public Enterprises  
Department of Public Enterprises  
MoU Division  
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Public Enterprises Bhavan  
Block No. 14, CGO Complex  
Lodhi Road, New Delhi-110003  
Dated 16<sup>th</sup> February, 2021

**OFFICE MEMORANDUM**

**Subject: MoU Guidelines for the year 2021-22 and onwards.**

The undersigned is directed to enclose herewith MoU guidelines. These guidelines including its institutional mechanism would be applicable on MoU & its evaluation for the year 2021-22 & onwards. These guidelines are issued in supersession of the existing guidelines issued vide OM no. M-03/0017/2016-DPE (MoU) dated 17<sup>th</sup> January, 2019.

2. This issues with the approval of Minister (HI&PE).

Encl: As above.

  
(Amit Rastogi)  
Director (MoU)  
Tel: 011-24360736

To:

1. Secretaries to the Government of India (as per list).
2. Chief Executives of CPSEs (as per list).

Copy to:

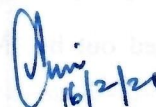
1. Staff officer to Cabinet Secretary, Cabinet Secretariat.
2. CEO, NITI Aayog, Yojna Bhawan, Sansad Marg, New Delhi-1.
3. Chairman, PESB, Public Enterprises Bhawan, Block No. 14, CGO Complex, Lodhi Road, New Delhi-3.
4. Finance Secretary, Department of Revenue, North block, New Delhi.
5. Secretary, Department of Expenditure, North block, New Delhi.
6. Secretary, Ministry of Statistics & Programme Implementation, Sardar Patel Bhawan, Sansad Marg, New Delhi.
7. Chief Economic Adviser, Department of Economic Affairs, North Block, New Delhi.
8. Member-Secretary, Tariff Commission, 7<sup>th</sup> Floor (A Wing), Lok Nayak Bhawan, Khan Market, New Delhi.
9. Ms. Anuradha Thakur, Joint Secretary, Cabinet Secretariat, Rashtrapati Bhawan, New Delhi.

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

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**Subject: MoU Guidelines for the year 2021-22 and onwards**

1. **Preamble:** One of the key ownership functions of the Government being the majority shareholders of Central Public Sector Enterprises (CPSEs) is to undertake regular performance evaluation of CPSEs to assess their efficacy towards fulfilment of core objectives for which these have been constituted. The performance evaluation system, instead of merely evaluating the “efforts” of a CPSE or its management in a given business environment, need to be actually reflecting the economic performance in terms of CPSE’s profitability/ return on the invested capital, competitiveness/ usefulness in the given commercial space. It is the endeavour of the Department to strengthen CPSEs so that these can function as Board driven companies. The revised framework of Memorandum of Understanding (MoU) detailed in these guidelines is a self-governing, dashboard based online system for ensuring transparency and elimination of discretion in target setting and evaluation. It takes in to account the past performance of the CPSE, its vision plan and sectoral benchmarks based on peer comparison during target setting. The grading /outcome of the performance evaluation process under the revised MoU system would be reflection of CPSE’s performance as per its audited Books of Accounts, both for listed and non-listed companies. This is significant in view of the linkage in Performance Related Pay (PRP) with the performance evaluation through MoU framework.
2. **Scope:** All CPSEs (Holding as well as Subsidiaries) are required to sign MoUs. The Holding companies will sign MoUs with their administrative Ministries/ Departments, while the Subsidiary companies will sign MoUs with their respective Holding companies.
3. **MoU Framework:**
  - 3.1 **MoU Parameters:** The parameters included in the revised MoU process are market oriented reflecting the shareholders’ interest in terms of growth in revenue, return on net worth, asset turnover ratio and market capitalisation for listed CPSEs. Adequate weightage has also been given to productivity linked parameters pertaining to CPSE’s core operations. All the parameters are quantifiable and verifiable from the documents in public domain. Besides certain government’s priorities / programmes such as procurement from GeM, MSE sector, Research & Innovation, etc. have been also been included for compliance by CPSEs, the non-compliance of which would result in deduction of full marks i.e. there would not be any

  
16/2/21



partial deduction, The list of parameters is enclosed at Annexure I.

**3.2 Digital dashboard:** A digital dashboard with a centralized portal developed by DPE will be used for entering, signing, monitoring and evaluating MoU agreements. The CPSEs, administrative ministries, MoF, MoSPI, NITI Aayog and Chief Economic Advisor would be onboarded the dashboard with appropriate user roles.

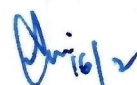
### **3.3 Institutional Mechanism**

**3.3.1 Inter-Ministerial Committee (IMC)** comprising Secretary (DPE) as Chairman, Chief Economic Advisor (Department of Economic Affairs), Representative of Ministry of Finance, MoSPI, NITI Aayog and Secretary of Administrative Ministry as special invitee & any other expert co-opted on need basis would benchmark indices for key parameters in each sector.

**3.3.2 High Powered Committee (HPC):** The High-Powered Committee (HPC) is the Apex body under MoU system for laying policy guidelines, approval of the benchmarks and indices recommended by IMC. HPC comprises the Cabinet Secretary as Chairman with following members:

- i. CEO (NITI Aayog)
- ii. Finance Secretary
- iii. Secretary (Expenditure)
- iv. Secretary (Statistics & Programme Implementation)
- v. Chairman (Public Enterprises Selection Board)
- vi. Chief Economic Advisor (Department of Economic Affairs)
- vii. Chairman (Tariff Commission)
- viii. Secretary (Public Enterprises)

**3.4 Bench marking and target setting:** The sectoral templates containing the parameters and the corresponding benchmarks of key parameters will be worked out by IMC for approval of HPC before uploading the same on the dashboard by DPE. The purpose of sectoral templates is to select & identify the parameters & weightages (from Annexure I) relevant to the core business activities in that sector. In addition to the historical performance data of CPSEs, the benchmarks would be based on growth and emerging trends of the sector, vision that has been worked by the Ministry about the sector both from side of private and public investment, global and industry standards of excellence. The requisite levels of performance required to be achieved against those parameters, not covered under the benchmark index, will be worked out by IMC in consultation with concerned Administrative Ministry. In





order to enable the IMC to determine the benchmarks for various parameters, the CPSE will upload on the dashboard by 31<sup>st</sup> March of the base year i.e. the year previous to that of MoU target year, the estimated figures of certain financial and physical attributes. Once the actual results of the base year are available, the figures of financial and physical attributes referred to above, will be updated by the CPSE on the dashboard by 30<sup>th</sup> October of the MoU target year. Accordingly, after uploading of the actuals on the dashboard, the benchmarked targets based on legacy data will stand updated automatically and the performance evaluation will be done against these updated targets. Similarly, by 31<sup>st</sup> March of the Base year, the Administrative Ministry/Department will upload on the dashboard, the details of sectoral vision plan covering at least 3 to 5 years with annual milestones so that the same can be taken into consideration at the time of benchmarking by IMC.

**3.5 MoU Evaluation:** As per timelines prescribed in **Annexure-II**, CPSE will enter data from their audited balance sheet and P&L Statement on the dashboard through which the score would be automatically calculated against the benchmarked targets in each parameter. **There would be no adjustment in MoU agreement due to changes in exchange rate, prices of raw material or finished goods or due to offset for any other reason as they are normal business activity and audited statement of accounts declared shall prevail.** The benchmarks set by IMC will be for “Excellent” level. The CPSEs will be allotted marks proportionately based on achievement figures for each parameter. Score on all parameters would be added to arrive at aggregate Score.

**3.6 Difficulty/ Competitive Index (DCI):** The nature of operations of CPSEs observed to be substantially varying from sector to sector, i.e. a CPSE in manufacturing sector completely differs in terms of complexity of operations from the one operating in service or consultancy sector. The CPSEs also have varying level of risks (exploration and mining) and competitions (nomination vis-a-vis competitive bidding). Moreover, the nature of CAPEX (setting up of Plants in difficulty terrains/ geographies), level of governance (technical/ legislative/ regulatory compliances), difficulty in adoption of clean technology etc. are also different for CPSEs operating in different sectors. For the purpose of fair and just evaluation, a Difficulty/ Competitive Index (DCI) would be decided by the IMC to rationalise the aggregated scores of CPSEs operating in different sectors. DCI for different sectors will be fixed in the range of 0.9 to 1 based on difficulty/ competitiveness of operations in the sectors.

**3.7 MoU Rating:** The ranking of CPSEs will be based on their final MoU score. The aggregate



score of a CPSE would be first multiplied with DCI and thereafter the performance against the compliance parameters would be evaluated to arrive at final MoU Score. The number of Excellent CPSEs will be limited to top 25 subject to the proviso that the CPSE has 90 or above score. However, if more than 25 CPSEs score 90 or above score, only the top 25 will be given the excellent rating. The MoU rating of CPSEs will be assigned as given in following Table:

MoU Score	MoU Rating
Top 25 and Score $\geq 90$	Excellent
Score $\geq 70$	Very Good
Score $\geq 50$	Good
Score $\geq 33$	Fair
Score $< 33$	Poor

#### 4. **Exemption from MoU:**

##### 4.1 Following CPSEs are exempted from MoU system:

- i. CPSEs under liquidation where Liquidator has already been appointed. Administrative Ministry would provide the list of such CPSEs.
- ii. CPSEs which are not in operation or having no employees or on any other ground on the recommendation of administrative Ministry with approval of Inter Ministerial Committee or High Powered Committee.

##### 4.2 CPSEs not signing of MoU: The CPSEs which have not been given exemption and do not sign MoU shall be given rating as 'poor'.

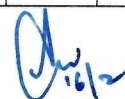
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MoU Parameters

MOC Parameters				
SN	Parameter	Formula	Marks	Source/ Verification
<b>A. Top-line, Bottom-line and Returns Perspective:</b>				
1.	Revenue from Operations (Rs. In Cr.)	Revenue from Operations	5	Profit & Loss Statement
2.	Asset turnover ratio	$\frac{Total\ Income}{Total\ Assets} \times 100$	5	P&L Statement & Balance Sheet
3.	EBITDA as a percentage of Revenue	$\frac{EBITDA}{Total\ Income} \times 100$ EBITDA: Earnings Before Interest, Tax, Depreciation & Amortization excluding exceptional or extra-ordinary items	10	P&L Statement
4.	Return on Net Worth:	$\frac{PAT}{Average\ Net\ Worth} \times 100$ Net worth: As per The Companies Act	10	P&L Statement & Balance Sheet
5.	Return on Capital Employed	$\frac{EBIT}{Total\ Capital\ Employed} \times 100$ Total Capital Employed: Net worth + Non-Current Borrowings	5	P&L Statement & Balance Sheet
6.	Market capitalization/ Share Price improvement over sectoral index on an annual average basis (for listed CPSEs).		5	BSE / NSE Data
<b>B. Physical Goals; Management of Receivables and Contracts and CAPEX</b>				
7.	Physical Output:		20	Annual Report of CPSE  Confirmation by the administrative Ministry
	Production/ Generation/ Transmission etc.			
	Completion of client order milestones without time overrun.			
8.	Trade Receivables as number of days of Revenue from Operations	$\frac{Trade\ Receivables}{Revenue\ from\ Operations} \times 365$	5	Balance Sheet & P&L Statement
9.	Managing contracts efficiently	$\frac{Total\ value\ of\ contractual\ claims\ at\ various\ levels\ (Arbitrations,\ courts,\ etc.)}{Total\ value\ of\ contracts\ not\ closed} \times 100$	5	Confirmation by the administrative Ministry
10.	i. CAPEX (Rs in Cr.)	Target is based on Budget document of Union Govt. Addition to Property Plant and Equipment, capital work-in-progress, capital advances	8	Balance Sheet
	ii. CAPEX achievement till end of 3 <sup>rd</sup> quarter (31 <sup>st</sup> December)	Achieving 75 % of target	2	Confirmation by the Administrative Ministry
<b>C. Strategic projects of national Importance/ Export/ Import Substitution/ Other parameters to be given by Ministry/ IMC:</b>				
11	i. Exports as a percentage of Revenue from Operations	$\frac{Value\ of\ Exports}{Revenue\ from\ operations} \times 100$ Should show improvement over previous year.	5	P&L Statement & Balance Sheet





	ii. Imports as a percentage of Revenue from operations	$\frac{\text{Imports consumed during the year}}{\text{Revenue from operations}} \times 100$ Should show reduction from previous year.	5	Annual Report
	iii. Strategic projects/ schemes of national importance (Only those parameters/ targets be given that can be verified from Audited Accounts/ Annual Report of the concerned CPSE.		10	Annual Report
12	Any other parameter – • For loss making CPSEs: reduction in losses/ expenses, etc., • For Finance & social sector CPSEs: Loan disbursement/ Overdue Loans/ NPA/ cost of raising funds/ Geographical coverage/ last mile disbursement, etc.			Confirmation by the Adm. Ministry
Note:- In working out achievements for the year, quantified qualifications of CAG/ Statutory Auditors would be adjusted in case of overstatement of Revenue/ Profit/ Surplus or understatement of Loss/ Deficit.				

<b>D. Aggregate score would be subject to compliances failing which full marks, as indicated below, would be deducted and there will be no partial deduction:</b>			
SN	Parameters to Comply	Marks	Source/ Verification
1.	Procurement from GeM portal in percentage as prescribed by the IMC: $\frac{\text{Procurement of goods and services through GeM portal during the year as per GeM}}{\text{Total procurement of goods and services during the previous year as per Sambandh portal}} \times 100$	-5	Administrative Ministry on the basis of GeM portal and Sambandh portal
2.	Government guidelines on personnel matters	-5	Administrative Ministry on the basis of CAG Reports etc.
3.	Government guidelines on Corporate Governance	-1	Administrative Ministry on the basis of CAG/ Statutory/ Secretarial Auditor Report(s)
4.	R&D / Innovations Initiatives (Target to be prescribed by the Administrative Ministry)	-5	Confirmation by the administrative Ministry
5.	Dividend payout and complying with Assets Monetization/ Specific disinvestment Milestones (disinvestment targets like listing/ buyback/ OFS/ meeting Minimum Public Shareholding norms/ strategic disinvestment) etc. given by DIPAM.	-5	Administrative Ministry on the basis confirmation from DIPAM
6.	Procurement and timely payment to Micro Small and Medium Enterprises	-1	Administrative Ministry on the basis of Sambandh portal
7.	Steps and initiative taken for Health & Safety improvement of Human Resources in CPSEs (Target to be prescribed by the Administrative Ministry)	-1	Confirmation by the administrative Ministry

*Signature*  
16/2



## Annexure-II

### Timelines, responsibility and accountability for various tasks for the dashboard

Task	Responsible	Accountable	Consulted	Informed	Timeline
Research & Data Analysis (Sectoral growth rate, CPSE legacy data, peer comparison, vision)	Dept. of Public Enterprises	-	-	-	1 December to 31 January
Uploading of CPSEs' expected base year results	CPSEs	Adm. Ministries	-	Dept. of Public Enterprises	15 to 31 March
Preparation of Sectoral Benchmarks	Inter-Ministerial Committee, Sectoral Ministry	-	CEA, NITI Aayog, DIPAM	-	April
Approval of Sectoral Benchmarks, Evaluation Matrix, any other guidelines	High-Powered Committee	Dept. of Public Enterprises	-	Inter-Ministerial Committee	May
Uploading of Benchmarks on dashboard	Dept. of Public Enterprises	-	-	Admin. Ministries, CPSEs	May
Digital signing of MoU	Admin. Ministries, CPSEs	-	-	Dept. of Public Enterprises	May- June
Uploading of CPSEs' final results of base year	CPSEs	Admin Ministries / Holding CPSEs	-	-	1 to 30 October
Updation of Progress in MoU Parameters	CPSEs	Admin Ministries / Holding CPSEs	-	-	(Monthly/ Quarterly)
Monitoring of Progress in Each Parameter	Admin Ministries	CPSEs / Holding CPSEs	-	-	
Online Entering of data on Dashboard for Evaluation after year ending	CPSEs	Admin. Ministries / Holding CPSEs	-	-	1 to 30 October
Final Evaluation of MoU	-	-	-	-	December

*Signature*  
10/12/21