CHAPTER VIII

SUMMARY AND SUGGESTIONS

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SUMMARY AND SUGGESTIONS

The present chapter presents the main findings of the research on the topic “Financial Appraisal of sugar industry in India with special reference of Haryana”. Besides, some valuable suggestions have also been advanced on the basis of results obtained wherever needed.

The appraisal of financial statements is relatively a new area of study. A critical financial analysis gives an inner perspective of an organization exposing its strength and weakness in this respect. It is undoubtedly important for outside analysts who are attempting to evaluate a firm’s current position, the efficiency of management and the firm’s long range prospects, but it is of even more importance in helping the management to evaluate its own operations to take corrective measures for past errors and to avoid condition, which lead to financial instability or business failure in future. Financial appraisal of any business concern is made on the basis of financial statements of that concern, which are the ‘blue prints’ of the financial, economic and operative affairs of the business enterprise. The techniques of financial analysis are designed to unveil the meaning and significance of data incorporated in financial statements.

FINDINGS OF THE STUDY

The present research work is a pioneer step to cover the various financial aspects of sugar industry in Haryana. Sugar industry has a unique place in the economy of India. It has been remarked as second largest organized industry next in importance to textile industry. Its contribution to the country’s economy is of paramount significance. The growth of sugar industry is full of tales of adventures and conquest. It was between the fourth and sixth centuries that the art of making sugar was discovered in India. Historically, it is said that the modern process of sugar manufacturing was introduced in the west as early as in 1853 but the same process came to India as late as in about 1903 when the first sugar industry with vacuum pan process and modern milling

1 Kulshrashtra N.K. “Analysis of financial statements of Paper Industry in India”, 1971, P. 372
method was commissioned in 'Saran' at Marhowrah in Bihar in 1904. Success of 'Maharashtra' sugar mill was the eye opener for other mills in India.

The progress of sugar industry during the planning era has been remarkable as brought out by the fact that the number of sugar factories in operation has gone up by 15 fold from 1950-51 to 1995-96. Since independence, there has been an overall increasing trend in sugar production in India but like other agro-industries, this industry has been subject to wide and sometimes violent fluctuations. One of the main reasons for this is that the raw material of this industry displayed large inter-year fluctuations mainly on account of changing weather conditions. Sometimes it suffers from drought and sometimes from floods and heavy rains. Maximization of sugar production per unit of land per year can only be achieved by intensive cultivation of sugarcane in sugar factory areas but there are some factors, which drastically affect the sugarcane production like delay in harvesting, non-payment of reasonable cane price and more importantly delay in payment. This undoubtedly undermined larger interests of sugarcane farmers. This could be one of the reasons for lower sugarcane output in subsequent years due to shift in area from sugarcane cultivation to other crops and lower application of inputs causing lower yields. Besides, it has to face competition with Gur & Khandsari industry which also depends upon sugarcane for its raw material. A large portion of sugarcane is utilized by Gur & Khandsari Industry which is the major reason of lack of raw material for the sugar industry. It can be proved from the figure that only 59.7 % of total sugarcane can be obtained by this industry in 1999-2000.

Sugar industry is a seasonal industry because of dependence on agricultural raw material. Hence, its workers can’t be employed throughout the year which is the major drawback of this industry in generating employment. Another point to be considered is lack of cheap transport facilities. This facility is a must to carry the raw material from the villages to factories in time to remove the hurdles in the path of supply of sugarcane for the production. Even after 55 years of independence, there is a lack of necessary infrastructural facilities in the country which may be an important reason of less production of sugar. However, a ‘Sugar Development Fund’ has
been established in 1982 but the funds are not being well utilized for the growth of sugar industry. Other factors responsible for fluctuations in sugar production are government policies, prices and market conditions etc. Even after getting the first rank in production of sugar in the world, India have the tough competitors in the international market because of this, the price of Indian sugar in other countries (1,025 to 1,075 Rs. Per qnt.) is lesser than the price in domestic market which is 1,200 Rs. to 1,300 Rs. Per qnt. There have been seen the various fluctuations in the export of sugar time-to-time. The major reason behind it is the increase in consumption of sugar in the country. It was 107.14 lakh tones in 1990-91 which went upto 154.19 lakh tones in 1999-2000. There is an estimate of consumption of sugar in the country in 2003-04 is 199.20 lakh tones which may increase upto 234.58 lakh tones till 2006.07. Besides, lack of proper co-ordination between govt. and industry may also adversely effect the export of sugar.

The higher cost of inputs in relation to return on sales may be the foremost reason for the erosion in the industry's profitability. Persistent hikes in prices of all inputs chiefly power, coal, erratic supply of power, labour problems in factories can affect the efficiency in production but in case of sugar mills, the situation is not so worst in Haryana because sugar mills in Haryana do not depend upon external energy for production, even these produces extra power during the crushing seasons and this extra energy can be supplied to other plants or colonies near to the mills. Its by-products like Bagasse, and Molasses can be utilized in various ways like producig Alcohol, Wine and other products. Even molasses can be sold for extra income. However, the by-products of sugar industry are not well utilized for the generation of this additional income. Labour problems are minor because wages are determined by the wage board, so there are no conflicts between the mills and labour. Thus, the major problems being faced by the mills are lack of finance, less production of sugarcane and high cost of production. All these led to extremely high operating ratio. The installed capacity could not be utilized leading to slow turnover of fixed assets. The industry had to face, therefore, financial strain during the period of study. Further, low sales margin reduced the
overall profitability of the industry. The industry could not generate enough funds to plough back. This halted the expansion and growth of the industry. Indeed the history of Haryana sugar industry during the period of study has been that of financial odds and financial crisis.

Haryana Sugar Industry has registered an erratic growth in the sales during the period (1992-93 to 1996-97) but the turnover was slow due to poor utilization of fixed assets in the context of total investments. The poor turnover coupled with mounting operating expenses led to poor generation of income in the sugar industry of Haryana. The overall profitability of investment was not only poor but registered a declining trend during the last two years of study. The total investment was, therefore, highly unproductive and hence unattractive. Because of high operative ratio, sales margin was thin and showed an erratic trend. The capital turnover ratio was also low. From shareholder’s point of view too, earnings were meager. It indicates that the overall profitability of sugar industry as well as its individual units in Haryana was not satisfactory.

The practice of trading on equity was noticeable in Haryana Sugar Industry. The capital structure of industry was highly geared. Highly geared capital structure is dangerous for the industry as heavy interest burden on long-term debt may spoil the solvency position of the industry. The reason for employing borrowed funds seems to be that in view of its record of poor earnings, there was no other choice of sources left. Hence, the long-term solvency was questionable. Though, long-term funds constituted a major part of financing the total assets yet these were inadequate to finance the permanent needs or indicted by the requirement of fixed assets and a fixed part of current assets. Thus, the short term sources finance the permanent needs which are against the cannons of sound business finance. Thus, the working capital position is also poor in the Sugar Industry in Haryana.

Most of the mills under study enhanced their fixed assets during the five years but this could not increase its financial vitality. However, the growth of gross block led to growth in sales but the increased sales were not profitable because of increasing trend of operating costs. There was inefficiency in the utilization of current assets. Inventory was the major item of current assets. It
can be concluded that most of the mills adopted comparatively a worst selling policy. Due to mounting operating ratio and rising short-term obligations the working capital became weak and precarious. The liquid position of the industry was worst and the claims of short-term creditors were not well protected. The industry, therefore, suffered for want of working funds like a prospective insolvent.

It can be analyzed from fund flow analysis that the short-term financial position was not good. Borrowings and funds from operations were the major items of funds in the sugar industry in Haryana. These funds were used mainly to finance working capital, fixed assets and to cover the losses from operations. Lack of generated and owner's funds compelled the management to finance the fixed assets through the borrowed funds, which can't be in the favour of industry.

At last, it can be said that the overall profitability of sugar industry can't be called satisfactory. This is because of high cost of goods sold, operating and non-operating expenses, heavy burden of interest and taxes and low gross profit, operating profit, net profit, retained earnings and low return on capital employed and net worth. Industry is not financially sound from long-term as well as short-term point of view. Debt-equity ratio, Capital gearing ratio, Proprietary ratio are also not in favour of Industry. Long-term borrowing always exceeded the shareholders funds, which showed the highly geared capital structure of industry, which is quite dangerous for the industry. The position of working capital is also questionable. It is thin and risky for management as well as for its creditors. This is because of high collection period, low inventory turnover ratio. Current ratio and quick ration are also not in favour of Industry as both are below the standard norms during the whole period.

All these situations revealed a critical long-term financial strength, poor short-term financial position and less profitability of Industry during the whole period under study.
SUGGESTIONS:

The industry has been facing several problems like shortage of sugarcane, diversion of sugarcane for manufacturing of Gur and Khandasari, lack of finance, unfavorable government policy, constraints of marketing, un-scientific methods of cultivation, less profitability, high cost of production etc. Some suggestions have been presented for the proper growth of sugar industry in Haryana on the basis of above findings of the present study.

Major efforts should be taken to regularize the cane supply, as it is the major raw material of sugar production. Hazards in the path of cane growers should be removed so that sugar production per unit of land can be achieved at a maximum level. There should be a direct link between sugar factories and cane cultivators like in Punjab and Maharashtra. The intermediary agency should be removed. Proper arrangements for purchasing the essential inputs like seeds, manures, irrigation facilities, fertilizers etc. should have been made. The problem of finance can be solved by providing short-terms and long-term loans to cane growers for purpose of sugarcane development at easy installments.

Rehabilitations and modernization of the sugar plants can also improve the worst condition, increase the sugar production and decrease the costs. Farmers should be well educated in farming which can help in increasing their efficiency in production. It will ensure both quality as well as quantity of the products. Adoption of new technology maintains the quality at an appropriate level and makes it possible to face the competition in international market. Better yields breeding programmes should be initiated keeping in view the soil and climate of different regions of the country. Soil testing units or laboratories should be established in every unit for better results. ‘Sugarcane Research Centre, Koyambutur’ has made various efforts in this regard. Other research organizations should be established in various parts of country to run the programmes to improve the quality and quantity of sugarcane.

Indeed a financially sick industry can neither discharge its obligations satisfactorily nor will it have the required funds keep abreast with the modern technology and its improved efficiency. It
is, therefore, very important that this industry should be allowed a fair cost and price structure. For this purpose, it is suggested that banks and other financial institutions should be instructed by the government to supply adequate finances to these units. The interest on these deposits and the return of principal may be guaranteed either by the government or by the banks. It will make available appropriate funds for these units to cater to their long-term and short-term needs.

The scarcity and shooting prices of inputs have put a severe strain on Haryana sugar industry by inflating the operating ratio. This has made the working capital position of sugar units precarious. The operating costs should be effectively controlled so that profitability can be increased. The industry should adopt modern techniques of costing based upon cost variability studies like Break Even Point, Marginal Costing, Standard Costing and Budgeting Control etc.

The improvement in the capacity utilization in Sugar Industry in the state depends largely on the availability of essential inputs like power, coal etc. Coal is under the control of government. The government makes the policy itself for prices and distribution of coal throughout the country. The availability of this conventional source of energy continues to be uncertain. Hence, an alternative is needed. A plus point is that this industry does not depend on the conventional energy sources. It can generate its own power with the help of its important by product 'bagasse'. If the same power is to be generated using conventional thermal power stations, it would require huge capital investments. Bagasse based electric power generation can save a large amount to be required for other conventional energy sources. An estimate is that if the by-products of sugarcane are well utilized, approx. 3,500 Mgwt. Energy can be produced. Further to remove the scarcity of imported spare parts, it is suggested that each unit is encouraged to develop its own well-equipped workshop. The government should arrange hire purchase facilities for equipping the workshop with up-to-date tools, plants and spares. For the growth of sugar industry, it is very necessary that adequate allotment of foreign exchange be made to it so that there may not be any scarcity of imported 'must inputs'. The government should play an eminent role in this area. A separate
department should be set up to see whether adequate imported inputs are provided to each and every sugar unit at reasonable cost.

The industry had to face continuous power cuts throughout the study period. This was also the main cause of loss of production. It also results in heavy repairs cost. In order to have regular and uninterrupted power supply, the industry should install the D. G. sets. High power generating sets should be imported by government. The government should not impose any custom duty on these sets and in this regards, oil should also be provided by government at reasonable cost. To bring down the expenditure, it is suggested that energy saving equipments should also be installed along with generator sets. Adequate transport facilities should be allotted to this industry to move the raw material from the remote areas.

The government can play a crucial role in the development of sugar industry. It may initiate other fiscal measures to encourage investment in sugar and related businesses such as distillery and co-generation of power. The weak/sick units in the sugar industry should be allowed appropriate fiscal incentives in order to restore their viability. Incurable units should be merged with healthier unit or relocated at other places. A perspective plan should be developed for the state sugar economy for consolidations of productions facilities, up-gradation of technology, cost reduction and quality improvement leading towards higher economies of scale. Besides, licenses for establishment of Gur & Khandsari Industry should be given only after considering the scope of sugar industry in that area. Even a levy system should be adopted regarding Gur & Khandsari Industry like Sugar Industry.

A well-equipped industry cannot run itself without efficient manpower. Hence, this is another factor responsible for increase or decrease in production. If possible, every factory should have the provision of suitable training courses in plant. The rules for promotion of employees need clearly to be set-up and promotion should be determined by trade test and performance. The government should issue guidelines time to time regarding the development of personnel in order to obtain the desired goal by the industry. The disputes must be solved by the provision of collective bargaining and participation in management. Improved quality of
sugarcane should be invented by research centers so that the workers can be employed throughout the year. Required infrastructural facilities should be there to make a regular supply of raw material to factory and finished product to market.

The profitability of the industry can be increased if we get success in controlling the costs. If the cost of goods sold is brought down to 50% to 60% of sales, then, not only profitability will be increased but the overall financial position pertaining to working capital, capital structure and assets will also start proceeding towards betterment. In this case, we should study the expert’s knowledge imported from other developed nations like U.S.A., Japan and China etc. If there is a position of over-employment in any unit, it should be stopped, as it is also the reason of losses, wastage and other financial problems. Thus, rather excessive human beings, appropriate and efficient manpower is required for reduction of cost and betterment for the concern. Wastage of material and time can also be presented by establishing good employer-employee relationship. Any type of industrial disputes can be harmful for the progress of the organization. Thus, it should be stopped or solved by establishing sound human relationships between employer and employee. A strong and efficient trade union can work in this regard effectively.

To rehabilitate the sugar industry financially, the ‘make-up’ of liabilities and capital also needs a ‘shake-up’. The practice of trading on equity did not increase the financial welfare of shareholders. As the earnings were meager and liquid position weak the extension of long-term borrowed funds was not justified. Thus, an equity base should be enlarged. Further, the short-term creditors should be kept in limits and the rest should be retired through the issue of redeemable preference shares. The period of credit allowed by the industry should be curtailed. In fact, the credit policy should be decided after taking into account the liquid position. These suggestions are likely to bring a realistic capital structure on hand and increase in the depleting working capital reservoir on the other hand. On the whole, the liquidity of the industry will also improve.

Last but not the least a long term policy is needed to be framed and implemented to further consolidate the encouraging
trends in production and establish the sugar economy on a firm and sound footing and this needs to adopt the various measures. The prime need of the hour is that the government should play positive role in expanding production and sale of sugar by providing enough financial incentives. The expanding sale and controlling of costs shall increase the overall profitability of sugar industry. To conclude, imaginative government role and its continued support can help in consolidating its sugar economy and growing from strength to strength especially in light of changing industry scenario.