Chapter 6

Problems faced by the Corporate Sector in Uttar Pradesh
The previous chapters presented the detailed analysis of the growth of the corporate sector post 1991 economic reforms. However, despite policy incentives and available abundant resources the state has not yet witnessed a turnaround in the growth of the industrial sector. This brings us face to face with the inherent problems prevalent in the different companies selected for the research purpose. Thus, this chapter endeavours to present the detailed description of the problems faced by these companies as discussed below:

**Problems faced by the sugar Industry**

Uttar Pradesh is the principal sugarcane producer in the country in which sugarcane cultivation and sugar industry is the single largest contributor to the economy and industrial development of the state. Out of India's total sugarcane area of 49.44 lakh hectares, Uttar Pradesh accounts for more than 21.25 lakh hectares (about 43 percent).

The state's sugarcane productivity as well as sugar production is less than the national average. The average sugarcane productivity in the state was 59.34 tons per hectare in 2011-12. Several schemes launched by the Sugarcane Development Department of the State are under implementation to augment the average yield of sugarcane. This is expected to increase to 70 tons per hectare. During the season 2011-12, there were 124 operating sugar mills in the state (Cooperative Sector 23+Private Sector 101). The total crushing capacity of these sugar mills is 7.67 lakh T.C.D. During the season 2011-12, the sugar mills crushed 767.35 lakh tons of sugarcane to produce 69.58 lakh tons of sugar. Key Issues before the Sugar Industry are discussed as follows:
➢ **Cane Price**

A High level Committee to be appointed by the Government for determining cane price which should be linked to sugar price through some transparent formula based methodology. The price so decided should also take into consideration inter-crop parity to avoid cyclicality in sugarcane production.

➢ **Release Mechanism**

Sugar is sold by sugar factories on the basis of release orders issued monthly by the Sugar Directorate, Government of India. Release mechanism should be discontinued in order to have better cash management and timely payment to the farmers. Price discovery should be done through a transparent Forwards and Futures market.

➢ **Levy Sugar Obligation**

The Government declares a certain proportion of sugar production as Levy sugar (at present 10% of total production) to be sold under Public Distribution System at pre-determined prices (which is way below the cost of production of the mills). This causes a huge financial burden on the mills. Levy sugar obligation should be totally abolished and if the Central Government wants to provide any sugar under the Public Distribution System it should buy such sugar from the open market and subsidise it from its own resources.
➢ Import/Export Policy

The Government should have a Pro-active Import/Export Policy in order to ensure reasonable sugar prices so that sustainable cane prices can be paid to the farmers.

➢ De-reservation of Cane Area

Reservation of cane area should be removed. This will help in efficient use of resources, better farmer-miller relationship and will provide a level playing field. Farmers will also have the option of supplying their cane to which ever miller he wants.

➢ Packing Material

The Ministry of Textile has been prescribing the minimum percentages from time to time for compulsory packaging of sugar in jute bags. The packing cost of sugar in jute bags is very high compared to the other packaging material. The sugar industry is subsidizing jute industries. The Government should fully exempt the sugar industries from compulsory packaging in jute bags.

➢ Priority Sector

Sugar industry has been cash striven for decades. Finance is not easily available from institutions to new sugar factories and to existing factories for expansion as well as for working capital requirements. Sugar sector being a very important sector in agronomy space should be classified as a Priority Sector. Besides the major issues discussed as
above, sugar industry is also facing other impending issues discussed as follows:

- Under-utilization of plants' installed capacity due to low availability of sugar cane
- Utilization of sugar cane by Gur / Khandsari industry without any control
- Low sugar recovery by the sugar mills
- Prices of ethanol
- Sale of Co-generation power in the open market
Problems faced by the textile industry

Indian textile industry is one of the leading sectors of Indian economy and contributes significantly to the country’s industrial output (14%), employment generation (35 million in direct employment and another 20 million in indirect employment) and export earnings (17%). It contributes 4% to Indian GDP. Consumer demand remained sluggish across the textile and apparel value chain in FY2012-2013 due to high inflation and interest rates resulting in long periods of extended end-of-season sales, pressure on margins, thus effecting profitability. Textile industry is one of the largest employers in India and has strongest linkages with the rural economy. The growing Indian young middle-class population is a source of great potential and provides immense opportunities to spur growth in the industry going forward. The major challenge is that the textile and apparel industry is facing increasing cost of production out of rising wages, high power and interest costs.

Some of the problems faced by the textile industry are discussed below:

- The supply of raw material to the mills has been inadequate and that too of not good quality. The turnover of these mills depends on the harvest of cotton and jute in the state. The harvest in turn depends on the weather conditions of the area.

- The textile industry is a labour intensive industry. Low productivity of workers and frequent strikes by the workers has adversely affected the profitability and smooth operations of the mills.
• The spinning mills are facing steep increase in the cost of production due to increase in wages, cost of power and interest on loans.

• Most of the mills are working on obsolete machinery and technology. These machinery yield low productivity per worker and involve high maintenance costs. The government has set up various textile research associations but the fruits of the researches do not reach the destinations.

• Skilled manpower and regular training of workers is another important area where both the government as well as the mill owners should work together. Government is imparting training through various agencies such as NITRA (northern region) but considering the vast scale of workers employed in these mills, the effort is still not totally utilised.

• Frequent strikes and lock-out have further deteriorated the sickness prevalent in the textile industry. The problems of workers are increased multitude when the sick mills are shut down completely.

• Global competition from the markets worldwide adds to the woes of our domestic textile industry. Our domestic textile industry finds it difficult to compete because of obsolete technology, high cost of production and long delivery schedules. Moreover the mills may not be able to support production on such a large scale. The research and development in this field is very limited.

• Irregular power supply and long power cuts have increased the problems of the textile industry. Alternate arrangements of power supply increase the cost of production.
• Good quality cotton is imported from other countries which increases the cost of production thus affecting profitability.

• Fabrics such as cotton and jute face tough competition from man-made fibres such as nylon, rayon and polyester which are cheaper and more durable.

• The export/import policy further restricts the growth of the textile industry. High export taxes do not favour the full-fledged growth of the industry.

• The quality of infrastructure (both physical as well as social) has not been up to the mark.

• Bureaucratic hurdles and transparency in Government procedures need to be simplified.

• Excise duty on the purchase of the textile machines increases the cost of establishing a textile production unit thereby hampering the flow of investment in this sector.

• Hassles at inter-state tax barrier (octroi) are also affecting the growth of the sector. Enforcement of entry tax such as octroi etc., at state borders are making the transportation of raw material and finished product very costly.

• Complex labour laws are a deterrent to the smooth working of the textile units.
Problems faced by the paper industry

The Indian paper industry presents a unique picture as compared with the major global players. The Indian industry is highly fragmented and is made up of a mixture of tiny, small, medium and large size mills. However, even the largest mill in India cannot be compared to the size of any of the major international players. Consequently the problems faced by the Indian paper industry are also unique.

- Availability of good quality fibrous raw material

The Indian paper industry uses a diverse mix of fibrous raw material primarily forest based agro residues including bagasse, straw and waste paper. Though agro-residues are available in plenty, however, associated problems like complexity during processing of these fibres, quality of the end product and environmental issues are the major concerns which sometimes limit the use of this potentially available, renewable raw material. As regards waste paper, nearly 1 million tonne waste paper is currently recovered annually showing a recovery rate of about 20% which is very low as compared to global scale where the average recovery rate is around 50%. This requires a well refined and aggressive collection and grading system to contain imports of waste papers.

With regard to the forest based raw materials, currently the paper industry meets its demand from the government sources and through the farmers. Industry has also being successful in raising wood in marginal land held by the farmers but this may not be adequate to ensure sustained supply of fibrous raw materials and to cope up with the
future growth of the industry. Taking into account the increased usage possible from the use of non-conventional raw materials like agro based fibre and waste paper, the paper industry will require nearly 16 million tonnes of wood per annum by the year 2010. However, responding to the challenges posed by a liberalized system of international trade, the major players in Indian paper industry have taken up aggressive initiatives in this direction through social forestry programme.

• **Scale of operation**

The lower scale of operations has been one of the major constraints in improving the competitiveness of the Indian paper industry. The average size of paper machine in India is around 14,000 TPA against the world average of around 50,000 TPA. However, considering the constraints for green field expansion the industry has adopted the global trend of mergers and acquisitions to gain economic scale, besides upgrading the existing capacities.

• **Obsolescence of technology**

Technological obsolescence is also seen as a major problem in the Indian paper industry. Many of the small mills were established using second hand imported machinery, however, over the years, the technology for making paper has undergone a sea change. The larger players of the Industry have already initiated steps to catch up with the rest of the world. But, perhaps due to financial constraints, the small and medium size units continue to use obsolete technology. Not only does technological obsolescence has an adverse effect on quality and cost of the product, it also involves serious environmental concerns. Though
some of the large players have gone for adoption of modem, cleaner technologies, much needs to be done particularly in the agro based sector.

- **Cost of raw material**

  Most of the companies face negative growth due to increasing cost of raw material. Every year the cost of raw material used for the production of paper and its products far exceeds the turnover of the company. In this respect the role of the government becomes very significant. The government should subsidise the cost of raw material or at least regulate the cost so that the paper production is not adversely affected and the company is able to carry on its operations smoothly.
Problems faced by the automobile industry

Financial Year 2013 has been a very difficult year for the Indian auto industry. The situation in financial year 2012 was only marginally better. After witnessing two years of robust growth (FY 2010 and FY 2011), economic slowdown began to take its toll on the sector thereafter. Various factors including but not limited to high inflationary pressures, interest rates, fuel price, all lead to an adverse impact on the auto industry. As per Society of Indian Automobile Manufacturers (SIAM), the overall sales growth rate recorded for April – March, 2013 was only 3% year on year; compared to 14% during 2011-12. The scooter segment grew by 14% against the growth of 25% during FY 2011-12. There was virtually no growth in the motorcycle segment during FY 2012-2013 compared to 12% growth in 2011-12.

Issues of concern before automobile industry

- One of the major problems faced by this sector is the poor condition of the roads. The road infrastructure is not properly developed. The condition of the highways is not up to the mark. A large number of the roads are single lane roads built almost 50 years ago. They hardly match the rapid pace at which the automobile industry is developing. Moreover, they are mostly used by bullock carts and two wheelers. It is believed that the condition of the roads would worsen with the introduction of bigger and increasing number of vehicles. Repair work is expected to incur expenses up to $30 billion. The privatization of the road infrastructure is not enough to solve the problem which has attained large proportions. The Road Development Program and its
progress are expected to be a key factor in the growth of the auto industry in India.

- Though numerous foreign companies have entered the Indian automobile market, the tariffs on imported components and products and the frequent alterations in the currency exchange rates have made localization an absolute necessity for these companies. Daewoo-DCM and GM Astra have already begun the process of localization and plan to expand it. However, there is an obstacle in the path of localization with respect to the limited number of component suppliers. The policies and programs of the government in power also play a crucial role in the growth of this sector.

- With each passing year, the number of automobile manufacturers willing to take the plunge into the Indian market has risen considerably. While most of the international brands have entered into joint ventures; there are exceptions like Hyundai which is keen on setting up its own manufacturing units. Growth in competition coupled with slowdown in the demand has adversely affected the profitability of the industry.

- The challenge before the industry is to figure out the strategy for survival and growth. It is clear that the industry will have to increase volumes in each segment to achieve lower cost of manufacture. One way to achieve this will be to go for exports in a big way. Maruti is already exporting vehicles, as are Mahindra, Telco, Daimler Chrysler and more recently Daewoo. The overseas markets will have to be exploited more aggressively, but this will mean the companies will have to invest more in Research and Development of new models with better features.
• The excise duty and other taxes are way above the international standards and they further add to the cost of the vehicle. In order to promote the automobile industry, the taxes will have to be reduced so that the demand in each segment will be augmented.

• Since the cost of fuel is increasing day by day, the automobile industry needs to focus its Research and Development to develop engines which are more fuel efficient and less polluting.
Problems faced by the leather industry

Leather industry in India is old, traditional and partly modernised. It is confronted with a number of problems and constraints some of which are old and chronic, and others are new and complicated. The rapid structural transformation occurring within the industry over the years and with more ambitious targets of growth for realisation of more value added products has thrown upon a vista of challenging and exciting prospects. In view of the present foreign exchange crisis, the need of the hour is to look into the various problems and constraints faced by the industry, so that all our efforts can be made to translate the targets set into the reality and to ensure sustainability in growth process.

Challenges faced by the Indian Tanneries:

- Increased cost of production per unit area of finished leather due to stringent environmental norms
- Expansion of production capacities – issue in Tamil Nadu due to local laws, despite compliance
- Increasing demand of raw material – raw hides, skins and semi-finished leathers
- Low level of technology in small tanneries
- No specific dedicated industrial areas for leather sector (in few States)
- Poor capacity utilization in most tanneries leading to higher financial cost and overheads
- Fluctuating leather prices exposes the manufacturer to significant risk
➤ Stricter international standards as a result of increasing environmental awareness

➤ Skills shortage resulting in high labour charges could affect the leather industry

➤ Lower productivity in India compared to other countries such as China & Korea

➤ Lack of strong presence in the global fashion market

➤ Lack of awareness of international standards by many players

➤ Limited scope for mobilising funds through private placements and public issues (many businesses are family-owned)

➤ Difficulty in obtaining bank loans resulting in high cost of private borrowing

➤ High competition from East European countries and other Asian countries

➤ Lack of warehousing support from the government

➤ The resurgence of the recession in the Europe, being a major and traditional market for the leather exports, is a cause of concern for the industry;

➤ Entry of Multinationals in domestic market puts pressure on the domestic players and eats away their share of the market.

➤ Stricter international quality standards imply check on the export of leather goods
Major part of industry is unorganized and that is why a collective effort to improve the productivity of the industry is ruled out. Many a times small businesses do not even get to know various exemptions and financial support extended by the government.

Non-tariff barriers - developing countries are resorting to more and more non-tariff barriers indirectly;

High inflation coupled with higher raw hide prices increases the cost of production of the finished leather goods.

Rising interest rates increase the cost of loan servicing thus reducing the profitability of the company.
Problems faced by the power sector

Electricity has become the lifeblood of the modern world, without which the world will come to a virtual standstill. Any sluggishness in the growth of the power sector can throw the region far behind other regions in industrial, economic and social growth. Thus, power has been recognized as one of the key components of infrastructure for a sustained growth of the state economy. Full utilization of other input factors, such as manpower, land including irrigation and capital-related resources heavily depends upon the uninterrupted availability of electricity. Electricity has therefore, become the most essential factor in improving the social conditions and welfare of people.

Over a period of time, energy supply could not have matched with the need of industrial requirement. The major problems faced worldwide are fast depletion of non-renewable energy sources, increasing costs for energy, and inability to create sufficient returns for investment for growth. These problems have created a shortage of power in both quantity and quality. Power sector was mainly treated as a Government business worldwide, considering its importance as a vital infrastructure for the growth of the state. But growth in this sector, however impressive it was, looked insufficient to cope with the impulsive growth in industrial and other sectors.

In UP’s perspective, there had been no substantial augmentation in the state’s power generation capacity till the 1990s. Power has been the bane of UP’s industry, with the current demand-supply gap widening to almost 3,000 MW. The current demand in the state is estimated at 10,000 MW.
Some of the problems faced by the power sector in Uttar Pradesh are discussed as follows:-

➢ **Poor Liquidity Position of UPSEB** has been a major factor why it has been unable to meet its obligation to suppliers of power and fuel and debt servicing.

➢ **The dismal financial performance of UPSEB** reflected growing pressure on the cost of power supply on one hand and inadequate revenue on the other. The business expanded even as the average tariff realisation fell short of the average cost of power supply.

➢ **Investment in the power sector has been not only inadequate, but also distorted.** Traditionally there has been an over-emphasis on generation and a neglect of transmission and distribution. This is reflected in the high share of generation in total investment. Investment in areas such as system strengthening and metering have been far short of requirement. Also no serious attempt has been made by the state to introduce demand side management.

➢ **The operational efficiency of the SEB** in the state lags behind the efficient growth of other states such as Maharashtra, Gujrat and Madhya Pradesh. What is even more striking is that no serious effort has been made by the state government in this direction so far.

➢ **The state is plagued with huge transmission and distribution losses.** The high transmission and distribution losses reflect a failure by the utility to provide adequate metering and to carry out energy audits of metered consumers. Unmetered
consumption includes consumption by not only unmetered category consumers (rural households, public lighting, PTWs, etc.) but also metered category consumers who have defective or non-functional meters. It is estimated that about 64% of all UPPCL consumers have defective meters or no meters at all.

► Adequate and timely tariff adjustments have not been made in Uttar Pradesh due to political expediency. Tariff in agricultural and domestic segments, street lighting and public water works have been kept at persistently low level as compared to the average cost of power supply. As a result, the burden of rising cost of power supply has over the years fallen on industrial and commercial segments.

► The government support in the form of subsidy for sale of energy to the agricultural sector has not been adequate. In reality, the government paid no subsidy on the ground that the board’s tariff approved by the government already included the subsidy element. As a result, the cumulative subsidy receivable from the government by the UPSEB has risen by huge amounts.
Problems faced by the electronics industry

In recent years the electronics industry is growing at a brisk pace. The demand in the Indian market is expected to touch $400 billion by 2020. The largest segment is the consumer electronics segment. India’s production constitutes only about 1.3% of the global electronics hardware production of $1.7 trillion. Hence it is still miniscule by the international comparison. However the demand in the Indian market is growing rapidly and investments are flowing in to augment manufacturing capacity. The consumer electronics and durables industry is currently poised at about Rs. 340 billion. The high growth in PC sales is attributed to increased consumption by industry verticals such as Telecom, Banking and Financial Services, Manufacturing, Education, Retail and BPO/IT-enabled services as well as major e-Governance initiatives of the Central and the State Governments. Significant consumption in the small and medium enterprises and increased PC purchase in smaller towns and cities was witnessed during the year. It is expected that increased Government focus on pan-India deployment of broadband at one of the lowest costs in the world will soon lead to accelerated PC consumption in the home market.

The growing domestic market has now given impetus to manufacturing in India. The year witnessed not only capacity expansion by the existing players, but also newer investments in hardware manufacturing. India is also high on the agenda of electronics manufacturing services companies.
However some of the problems faced by the electronics industry in Uttar Pradesh are:

- **Non availability of raw material**: Raw material is usually imported and assembled in India to produce the finished product. Quality is not assured in local markets.

- **Weak Supply Chain Network/Vendor support** further slows down the movement of the product from the supplier to the customer. There is an upward Trend in Cost including high (electricity & water), Wages & Salaries.

- **Unskilled man-power**: There is dearth of technical manpower due to the present educational system. Salary is also not Competitive. Software and ITes sector are more lucrative than the hardware sector. No social security and no incentive schemes are given to the employees. Small firms or units don’t have safety system and workers are prone to occupational hazards.

- **Obsolete machinery and high cost of new technology**: Companies are reluctant to adapt to new machinery / technology. As the older model machines are not manufactured any more, new spares are not available in the market. The old machinery is inefficient and involves high maintenance cost. Finance or the interest rates are high for upgrading technology. After sales service facility is not easily available. Though policy permits import of second hand spare parts, it is impossible to prove that these parts are with 80% remaining lifetime.
➢ **Loop holes in Infrastructure:** Irregular supply of power to the manufacturing units hinders its production. Road, Airports, Ports, Power are not well maintained. The realty price is also very high. Lack of e-Waste Management System. Inefficient and long duration of shipment involve high cost.

➢ **Inappropriate quality standards:** Majority of public are ignorant about energy efficiency. There is a lack of awareness about Implementation process. Research & Development and Innovation to improve the quality are insufficient.

➢ **Taxes are very high** as compared to other countries adversely affecting the profitability of the companies as well as restricting the entry of new start-ups.

➢ **Trade Policy:** Poor dissemination of policies and procedures related to establishing a new manufacturing unit. Different departments are not investor friendly. A lot of time is wasted in processing of files & clearing licenses.

➢ **Export-Import procedures:** Withdrawal of tax holidays with effect from 2009-10 granted to Export Oriented Units would be a huge set back. Delay in import clearances slows down completion of time bound project, as well as export production by Units.

➢ **Difficulties in financing:** Small firms experience difficulties in capital mobilization. High interest rate makes debt servicing more difficult and most of the firms end up defaulting their payments.
➢ **High Costs and slack in consumer demand:** The cost of raw material is rising tremendously. Consumer is postponing the purchase of IT hardware and electronics items thus affecting the growth of the sector.

➢ **Rupee-dollar conversion ratio:** Depreciation of rupee against other currencies implies fall in the imports and reduction in the profit margin.

➢ **Unorganised Sector:** This sector is capturing the local market. The cheap Chinese make goods are giving a tough competition to the quality products from the established firms which are priced higher than these goods.
Problems faced by the biotechnology industry

The Indian biotechnology sector is one of the fastest growing knowledge-based sectors in India and is expected to play a key role in shaping India's rapidly developing economy. It has been seen that currently India’s share in the global biotech industry is $4 billion, and the sector has seen a growth of approximately 33% in the last few fiscal years. However, in order to achieve the target $10 billion mark, the Industry has to grow over 40% on a year-on-year basis. To achieve this target the barricades the sector is facing need to be removed and issues which hamper the growth of the sector need to be addressed. The Global biopharmaceutical market, worth about US $137 billion today, according to industry estimates, is expected to touch US $319 billion by 2020 of which, the share of the Indian biopharmaceuticals market is a miniscule 1.4 per cent(at around US $2 billion), even though it is logging over 30 per cent growth rate.

Globally, the industry is at the crossroads of many challenges and, at the same time, seeing new trends in technology that will help it break through some of the barriers that have previously held it back. Despite the potential of the biotech industry, it continues to face the classic problems which are discussed below:

➢ The ‘Patent Cliff’ – Between 2012 and 2018, generic erosion will wipe an estimated 148 billion USD off the pharmaceutical industry’s revenues.

➢ Rising drug discovery cost – Developing new medicines is becoming an increasingly expensive business. Annual output of the pharmaceutical industry has effectively flat-lined over the past years.
Increasing government pressure with harsher global price controls and taxes – The rules governing the development and manufacturing of medicines are getting tighter. Both the European Medicines Agency (EMA) and the US Food and Drug Administration (FDA) now focus more heavily on risk management. The FDA is building an active surveillance system to monitor the safety of all medicines in the US market.

Greater collaboration of the regulators across the world – Regulators around the globe are working closely with each other, which means that a product rejected in one region is more likely to be rejected in others.

Changing marketing and sales model – The traditional marketing and sales model is becoming completely inadequate in large parts of the world.

Personnel – Biotech needs to create personnel adept at maintaining a fine balance between science and business. Biotechnology is seen to require a unique ability to combine the skills of a scientist and a businessperson. This is seen to have become imperative as people have started joining the industry without the right credentials, with most being enamoured by the hype surrounding it. A number of training institutes have sprung up, but the industry feels most of them are just not equipped to create the required talent.

Regulatory Constraints – India presently has a cumbersome regulatory process with multiple agencies that hinder innovation due to several cumulative procedural delays. This is the case for both Bio-Pharma (including bio-services and medical device) as well as Agri-Biotech segments. GOI has to make a quick strategy on how to re-vamp the
existing system and make it a single window, efficient, transparent and scientific evidence based. It is imperative that India should quickly build a single regulatory authority that is equipped with trained permanent personnel who understand the “science of regulation” as well as other affects of regulation be it the “economic cost” as well as the risk-benefit” analysis.

- **High cost of Research & Development (R&D)** – High import duties on high end equipment prohibit the manufacturers to establish cutting edge bio-analytical facilities. Technology accessibility barriers could also be reduced by providing tax breaks and rebates of 300% on R&D expenditure as well as preferential tax exemption for indigenously developed drugs and products.

- **Limited access to scientific and market databases** – Start-up firms that are R&D intensive need continuous access to knowledge about current technology trends and peer reviewed scientific journals. It is expensive to access scientific and market databases. GOI should provide funding to incubation centres for accessing scientific databases such as Science Direct and others.
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