CHAPTER V

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In the preceding chapters the financial structure of the U.P. State Sugar Corporation has been examined. A multitude of parameters namely, the pattern of liabilities and assets and the pattern of financing of the Corporation, through different sources and particularly by the Financial Institutions and Commercial Banks have been analysed. The analysis of the financial statements of the Corporation reveals that the takeover of scheduled sick sugar mills by the Corporation did not bring about any remarkable improvement in its working and the problem of growing sickness of sugar mills continues to persist. The majority of sugar mills are operating below the break-even point, and are not able to even repay their loans. As a result the burden of interest is mounting. Thus, the Corporation is virtually crippled on account of shortage of funds including the working capital. This situation has led to the further deterioration in the financial health of the mills. Therefore, the position and role of the Corporation has become questionable. It was observed that due to the
financial crisis the development and growth of the Corporation has been hampered. This chapter presents the summary of findings and conclusions of the study. It also proposes suggestions to improve the working of the Corporation so that it becomes an important instrument of change in the sugar scenario of the state of U.P. The sugar industry is a well organized industry in the country. It plays a pivotal role in the socio-economic development of the country. In order to accord protection to this strategically important industry the Sugar Protection Act was enacted in the year 1932. This not only helped in the development of sugar economy but also helped in transforming the economy of the rural sector. This is substantiated by the fact that within a very short span of five years, 137 sugar mills started functioning in the country. The number of sugar mills increased from 138 in 1940-41 to 147 in 1960-61, 216 in 1970-71, 314 in 1980-81, 338 in 1985-86, 356 in 1987-88, 366 in 1988-89, and 377 in 1989-90.
During the planning era, after independence, much importance has been attached to the Sugar Industry. Consequently many Government policies like Tariff Protection, improved cane pricing policy mainly in terms of fixing support prices to encourage cane growers to contribute towards balanced development of the industry, distribution and sales policy of sugar were introduced and implemented. All these had positive impact on the performance and growth of sugar industry in the country. The production of sugar in the country increased from 11.18 lakh tonnes in 1950-51 to 120 lakh tonnes in 1990-91. This has been the result of Government’s efforts to ameliorate the performance of this industry by improving irrigation facilities and undertaking other promotional measures. Unfortunately, while there has been an overall improvement in the performance of sugar industry in the country, there has been a considerable decline in the growth of this sector in the state of Uttar Pradesh. This is evident from the fact that the share of U.P. in the total production of sugar in the
country declined from 52% in 1950-51 to 25% in 1990-91. However, the southern states specially Maharashtra has improved its performance significantly i.e. from nearly 10% in 1950-51 to 34% in 1990-91.

The reason for poor performance of U.Ps. Sugar Industry could be ascribed mainly to inadequate supply of cane to mills, shorter-crushing duration, low recovery, outdated plant and machinery, lack of proper infrastructure and last but not the least, the shortage of funds for modernisation of plants and equipments. The poor performance of sugar mills not only affects the interest of the consumers but also adversely affects the well being of cane growers since they are closely interlinked. Any loss incurred by the sugar mills sets on a vicious circle in which poor performance of the sugar industry entails mounting overdues payable to cane growers and ultimately resulting in reduced supply of cane to sugar mills and worsening the performance of the industry. The profitability of the industry is also affected by the fixation of very low statutory cane
price. This causes dissatisfaction among the cane growers, resulting in diversion of cane supply from mills to commercial Gur and Khandsari units. Therefore, the Government should ensure parity in the prices of sugarcane for all sweetening agents like sugar, Gur and Khandsari units etc. and it should be fixed much before the start of crushing season so that competition among them may be avoided. In short, the dedicated efforts made by the sugar industry, the cane growers and workers in order to maintain self sufficiency is indeed a step in the right direction. If these elements are able to give their whole hearted effort and devotion towards the development of this industry, there is no doubt that U.P. with its high domestic market and abundant supply of cheap labour would be able to regain its old position as the leading sugar producing state. In order to achieve, this objective required infrastructural facilities have to be provided to the cane growers. This will help to maximise the yield per hectare, so that there is adequate availability of sugar cane to the mills for the production of sugar.
The sugar industry of Uttar Pradesh has been plagued by a wide range of cyclic fluctuations. Unfortunately, the Government has failed to tackle the problem relating to the fluctuation in the output of the industry in the appropriate manner. In order to accelerate the production of sugar in the state and to have a balance between demand and supply of sugar, a long-term policy ensuring a rising trend in the output should be evolved.

Another deterrent causing hinderance in the development of sugar industry is the influence of political factors. Politics has entangled the sugar industry in its web, the decisions about the location of mills are being heavily influenced by political motivation and populism. This leads to overcrowding causing trouble to the existing units. Therefore, it is necessary to extricate sugar from politics, so that economic principles alone become the deciding factors in the installation and location of new sugar mills. The Government should not be prejudiced to
the Gur and Khandsari units and Government policies should be announced keeping in mind the fact that nearly 40% of the sugar cane is going to the Gur and Khandsari Units. This diversion is uneconomic and should be minimised at any cost.

One of the main factors contributing towards the high cost of sugar production in Uttar Pradesh is the old and obsolete plant and equipment. There are 9 number of units in operation which are quite old. These units have small uneconomic crushing capacities with their old and outdated equipments. Therefore, it is imperative that the technological upgradation of these mills should be carried out without any further delay. More emphasis should be laid on encouraging new investment for the expansion and modernisation of the existing units rather than fresh investment in new mills. Efforts should be made to increase their crushing capacities so as to ensure optimum utilization. This shall give them an edge over the other competing units in the unorganised sector.
Another important aspect to be looked into is the lack of modern technology and farm practices in the state of U.P. One of the reasons for low yield of sugar in the state is the supply of inadequate quantity and inferior quality of cane to mills. However, the technology developed by research institutions take very long period to reach the cane growers. Indeed this slow transfer of technology prevents the growers from deriving maximum benefit from the research carried out. Lack of direct contact between the Research Institution and the cane growers has been an important factor affecting the pace of development in the State. Unless and until determined efforts are made to place the industry on sound footing, the plight of lakhs of cane growers and the poor performance of sugar mills can not be prevented.

Most of the mills in Uttar Pradesh do not have their own farms as in the case of southern states where the industries have developed their own farms using the
latest technology of cane cultivation. Therefore, the mills in Uttar Pradesh should develop their own farms and evolve a suitable long term strategy for cane development.

Another aspect which requires immediate attention is the transportation facility. It has got to be improved substantially. Sugar cane, the main raw material for the mills, is an extremely perishable commodity. Its supply is being drawn from the areas lying within the range of 30 to 40 kms from the sugar mills which require effective transportation system. It is an established fact that in U.P. inadequate transportation facility has been main bottle-neck in the improvement of sugar economy. Most of the mills in the state do not have proper link with roads and feeder roads. Therefore, in order to facilitate quick movement of sugar cane from fields to mills, efforts are needed to develop proper roads which can be used throughout the year even if large sums are to spent for this purpose.
The by-product of the sugar mills molasses, which is often wasted as the mills in Uttar Pradesh do not have proper storage facilities. Therefore, inorder to earn valuable foreign exchange and restoration of the financial health of the industry, it will be a step in the right direction for the Government to allow the export of molasses. This would not only result in the earning of foreign exchange for the country but will also solve the storing problems of the mills, as the mills are not in a position to carry a huge stock of this by-product.

At present the Government of India has adopted a policy of partial control in the country under which the Government pre-empts 45% of the total produce of the mills and rest i.e. 55% is available to the mills to sale in the open markets. This is an arbitrary practice due to which mills have to incur huge losses. The financial position of the mills, as such, can not allow them to bear this liability. Hence it is necessary to reduce the ratio of levy sugar to free sale sugar from
45:55 to 30:70, this will definitely help in easing the financial problems of the industry.

Labour is the most important component of any industry or organisation. Therefore, welfare of the labourers is to be given due importance while dealing with the industrial relations problem. The mill owner should keep this fact in mind and a congenial atmosphere should be maintained in order to derive maximum output from the workers.

New licensing policy of the Government, which deals with the reduction of spatial distance to a radius of 15 kms. is very ambiguous. This will, obviously, lead to over-crowding and may lead to the sickness of the existing units. The minimum economic size of the new sugar factory has to be increased to 2500 TCD from the present stipulation of 1750 TCD. It is also proposed that the down stream and distance for the molasses will get licences, if they are already granted licenses for new sugar mills. Since 1971-72 there has been growing apprehension among the sugar mill
owners that the sugar industry in the state is going to be nationalised. This misconception has adversely affected the growth of sugar industry in the state. The sugar mill owners have refrained from putting in fresh funds in their mills and not only this they even diverted the profit earned from their mills in U.P. to other more profitable units specially those situated in Maharashtra where better climatic conditions and better Government facilities are available. In order to restore the economic health of the sugar industry in U.P. the Government should categorically announce and assure the industrialist that the units in good economic health are not to be taken-over by the Government. Only the units which have become sick or have been losing their economic viability, shall be nationalised.

Historically, Uttar Pradesh has been the frontline state in sugar production but over the years its share in the total production of the country has been declining rapidly, while other states have gained momentum and some of them are doing fairly well.
The U.P. Government, greatly concerned with such a state of affairs, planned to ameliorate the situation by improving the performance of Sugar Mills of the State. As a result, Uttar Pradesh Sugar Corporation entered the Sugar horizon of the State in 1971-72, with the objective of taking over sick sugar mills of the state for rehabilitation and modernization and bringing these to the level of optimum production. As such, the Corporation formulated intensive schemes for the rehabilitation and modernisation of mills. Although these measures have resulted in increased production of sugar in the state but this increase has not been steady, as there has been wide fluctuation in the production. Even otherwise the cost of production involved has been much higher and further scope of increasing productivity and profitability remains unexplored and untouched. Keeping these factors in mind the financial structure of the Corporation has been examined critically. The analysis of the financial statements of the Corporation reveals that the takeover
of the scheduled sick sugar mills by the Corporation did not bring about any remarkable improvement in that the problems of growing sickness of sugar mills in the state still exists. Majority of sugar mills are operating below the break-even point, and are not able to repay the loans as a result of which the burden of interest is mounting, nor are they in a position to meet their cost and depreciation. The cumulative loss constitutes on an average 30% of the total assets. Further, the liquidity position of the corporation has remained deplorably weak as the current ratio rarely touches the figure of 2:1, as has been the case with quick ratio. In spite of the mounting interest burden, the Corporation is heavily dependent upon borrowings. Thus, the corporation is virtually crippled on account of shortage of funds including the working capital. Obviously this situation has led to a steep rise in the arrears due to cultivators, forcing them to divert their produce to the Gur and Khandasari units leading to reduced supply of
sugar cane to the mills and, thus a decline in the sugar production in the state.

Undoubtedly, therefore, the position and role of the Corporation has become questionable. Besides suffering from insufficiency of funds, the Corporation also suffers from mismanagement, improper utilization of available funds, lack of foresight, unhealthy atmosphere for the working experts and questionable expertise.

All these factors have shattered the expectation of the state Government for the rehabilitation of sick units and modernisation of the industry. Therefore, it is imperative the financial structure of the Corporation should be restructured by converting a part of borrowing into equity capital. Obviously, this shall ease up the burden of interest payment and enable the Corporation to raise adequate funds through internal sources in order to finance its expansion and modernisation programmes. It has been observed that borrowed funds constituted the
major source of financing the investment of the Corporation and nearly 40% of the investment have been financed by the Commercial Banks and the financial institutions. Obviously, it is against the cannons of sound business financing. Moreover, it has led to an increase in the short term liability which leads to poor working capital position i.e. excess of current assets over current liabilities.

A dedicated appraisal and implementation of the suggestions proposed in this thesis will lead to far reaching positive effects on the sugar industry of Uttar Pradesh. A concerted effort is required to be made by all concerned, with their full-hearted cooperation to bring about a turn around in the present situation. It should be the persistent endeavour of the Government, the industrialists, the workers, and the cane growers to contribute devotedly to achieve health and glory for this important industry. It is only with selfless enterprise and dedication that this industry may once again become a forerunner in the economic and social development of Uttar Pradesh.