INTRODUCTION

The managements of the corporate sector sugar units in Karnataka do not see any profitable future for the industry, due to the continued losses suffered by them and also due to the poor returns on the "Capital employed". The problems of sugar industry, it must be noted, are peculiar and cannot, therefore, be treated on par with other organised industries for the simple reason that it is agro-based and highly seasonal in nature. In fact, the cotton textile industry, one may say, is also an agro-based industry, so also vegetable oil producing units. The difference between the cotton textile unit and the sugar manufacturing unit is that the raw material required for the latter cannot be preserved and spread out throughout the year unlike the cotton which can be preserved and used for manufacturing process throughout the year. Besides, the machinery and men remain idle in sugar industry after the crushing season, which lasts for the maximum
period of 180 days on an average in a year. Therefore, the profits have got to be made during this crushing period, covering the overheads for the entire year.

SUGAR IS MADE IN THE FIELD AND NOT IN THE FACTORY

This axiom that sugar is made in the field and not in a factory is often forgotten by the sugar manufacturers. Thus, sugarcane plant stands in the field for well over one full year bravely facing changes in climate such as high temperature in summer, downpours in monsoon months and chill weather in winter. Accumulation of sugar in the stalk commences after minimum growth is attained increasing from bottom to top in peak summer and then declining. Hence, skilful manipulation of the growth of the cane is of great importance.

In India, a mill owner purchases sugarcane on weight basis due to policies laid down by Central Government, in prescribing minimum price for sugarcane based on the overall recovery in the mill. No premium is paid for the quality cane. Countries like Lousiana,
Jawa, Philippines, Formosa, Cuba, Puerto Rice, Mauritius and Natal pay for cane by a system which directly or indirectly encourages quality in cane. In India, the price fixation is rather arbitrary and governed by the adhoc policies of Central Government on sugar production and distribution.

The sugar mills in single monsoon zones of Maharashtra and North India start crushing early in October-November and the mills in two monsoon regions as peninsular India (including Karnataka) start later. The sugar recovery percentage in early phase is low and it gradually increases to peak level by February-March and then rapidly declines in hot summer or April-May. Sugarcane variety Co 853 though recommended for better recovery, is not accepted by all the factories.

Climate has a determining effect on equality of sugarcane, but recovery is due to soil, cultivation practices, variety, age, N in leaf, sheath moisture, pests and diseases. Apart from the above factors influencing the sugar content in the stalk of the
cane, the maturity at the time of cutting, immediate lifting of cane to the mill within 24 hours of cutting and stockpiling at the mill, are also the factors to be reckoned with in the recovery of sugar.

It is essential, therefore, that the primary producer - the farmer - must be taken into confidence and given all the incentives to grow a better quality of cane to produce more sugar by the mills. With this backdrop, we will analyse the future of corporate sector sugar industry in Karnataka State.

FUTURE OF CORPORATE SECTOR SUGAR INDUSTRY IN KARNATAKA

In a planned economy, future of any industry means its growth. The industry is not allowed to die as in a capitalistic economy with cut-throat competition. In a planned economy, it means that better utilisation of the economic entities and resources of the nation. Sugar industry which is an agro-based industry needs a fostering hand of the Government for its growth. Though the Government is wedded to the policy of encouraging the co-operative sector in sugar industry due to the involvement of the primary producers, the
existing private sector units cannot be allowed to wither away. In fact, they need to be encouraged for the better prices to the producers and to foster a healthy competition with the various sectors like co-operative, joint and public.

With a view to eliciting the opinion of the management in the corporate sector units in Karnataka, we asked a specific question on the future prospects of sugar industry and the replies received are worthy of consideration for the future interest of the corporate sector sugar mills in the State.

The question asked was: What according to you is the future prospects (from the point of view of the comparative profitability with other industries) for sugar industry in private sector in India and in Karnataka in particular? All the ten respondents have predicted, uncertain to unattractive and gloomy future prospects for the sugar industry in Karnataka, for various reasons. The reasons are all crystallised below:
1. GOVERNMENT POLICY

The management of all the corporate sector units are unanimous in condemning the policy of the Government. Thus, one of the managements of a successful sugar unit has to say that "when compared to any other agro-based industry like textile units, oil manufacturing units, sugar industry is at most unwelcome situation. Taking into consideration the present sugar policy of the Government, the prospects for this industry is most uncertain and most unattractive. On the one hand, the cost of all the major inputs are pre-determined by the Government and enforced on the unit, on the other hand, the disposal of the output is also controlled. As a result, the unit is not quite free to do what is best for it. The situation should be given serious consideration if the industry is to sustain its growth."

All the respondents are unanimous in tracing the present uneconomic position of the sugar industry to the Government's dual policy of price control - that is controlling the price of sugarcane and also determining the price of levy sugar, which is 65% of the production. Besides, the release of the levy sugar for distribution is determined by the Government which affects the price
of "free sugar" due to the supply position in the market.

2. SUPPLY OF SUGARCANE TO THE MILLS

Sugar mills consume only \( \frac{2}{3} \)rd of the cane produced. The other serious competitors for the consumption of cane are Khandasari mills, manufacturers of jaggery and for direct consumption. This establishes a fact that there is enough cane in the country for the existing sugar units. All that is necessary is the attractive price for the cane to be taken to the mills for crushing, than the Khadasari or the jaggery. The present price fixation by the Central Government leaves much scope for improvement in this respect. It is better to leave the price to be settled by the producers and the consumers of the cane. Since, there is a competition between three types of consumers of cane, the producers will always get a better price.

3. UNDER UTILISATION OF THE INSTALLED CAPACITY

Of the seven units, only one unit has said that the installed capacity of the plant was fully utilised. There was another unit which also said that the plant crushing capacity was fully utilised for 113 days.
Normally, a sugar mill will be crushing for 165 days in a year whereas this unit worked for 113 days only to claim that the capacity was fully utilised. The remaining units have all complained that the installed capacity was not fully utilised for want of sufficient cane for crushing purposes. The supply of cane to the mills was based on the price offered by other competitive users of the cane like Khandasari and jaggary. One of the units has blamed the imbalances in the plant itself as the reason for not utilising the crushing capacity to the maximum. This imbalance, the management has now undertaken to rectify soon. It is needless to point out here that sugar industry being seasonal, the capacity has got to be utilised fully during the season and the season must be spread out over a longer duration to reduce the 'overhead' expenses.

4. UTILISATION OF THE BY-PRODUCTS

A sugar industry has large number of by-products to offer in the process of the manufacturer of sugar which we have examined in Chapter - II. But the majority of the corporate sector sugar units in Karnataka are not utilising the by-products fully. In fact, the management
of one of the units has pointed out that it is the better utilisation of the by-products by his company which has covered the cost considerably and enabled it to make profits. The Company is using the pressmud, manufacturing potable alcohol, rectified spirit, arrack and utilising the bagasse also in the manufacture of cardboards. Thus, the entire range of by-products are utilised in the finished form to realise greater sale value. Whereas, one of the units has pointed out that utilisation of by-products involves a highly intensive technology which requires a lot of expenditure on R and D which the unit could ill afford. However, it must be again noted here that one of the important by-products is the molasses which is again controlled by the State Government. There is an excise duty on it as well as its price is fixed by the Government. Even its distribution is also done by the Government. Thus, there is a control of the Government even over an important by-product of the sugar, which the unit is not allowed to sell to recover its cost, as joint product.

Bagasse is now burnt by most of the units in their boiler, being used in lieu of the coal and/or firewood. In the south, coal and firewood are not
available in sufficient quantities and at a reasonable rate. This has compelled the units to use the bagasse for the boiler, depriving of the better use and hence a better price for this by-product.

5. COST OF PRODUCTION

Though 'costing' is introduced in all the sugar units surveyed, no independent Cost Department is established. Only cost audit is resorted to. The cost of production in 1979-80 worked out to Rs.300.00 to Rs.350.00 per tonne but the Karnataka High Court allowed only Rs.297.46 per tonne in a dispute referred to it by one of the units, thus putting the unit in a loss. The cost of crushing a tonne of cane was Rs.110.00 in 1979-80. There is a wide difference between the cost of production and the realisation of value on the sales, resulting in the loss for most of the units.

6. DIRECT TAXES

Direct taxes have not affected the corporate sector units much as all of them have incurred losses except one company which has pleaded for the reduction of the corporation tax and sur-tax. This company is
making profits because of the better use of the by-products. What is lost in the swing is made up in the rounds. But in the long run, the other units will be unable to meet all the accumulated losses and declare a dividend unless tax holiday for a period of 5 years is announced.

7. INDIRECT TAXES

Excise duty and the purchase tax have proved the proverbial last straws, to collapse the corporate sugar industry in Karnataka. The excise duty must be reduced and the purchase tax totally abolished. The incentives offered in the purchase tax in Karnataka is highly cumbersome, doing good neither to the grower nor the mill owners. It is simply robbing Peter to pay Paul especially when Peter is unable to pay and Paul is unsatisfied with the small payment.

8. TAX RELIEF

The tax relief that is given under the Income Tax Act, 1961, is far from satisfactory. The 'relief' is a tiny drop in a mighty ocean of tax levies. They are no real incentives where the enterpreneurs can take
advantage of, for establishing more units. Shri R.N. Lakhotia, a well known tax expert and an author of repute on the subject, put it in relation to the expression "exemptions" that a tax payer is bewildered to find that it has several connotations. In the interest of simplification of income tax law, it is suggested that all the exemptions be done away with and the tax rate should be substantially reduced. We have already noted that all the tax exemptions put together do not exceed 3% of the levies.

9. NEED FOR EXPORT

We have surveyed the working of the units from 1975-76 to 1979-80. The year 1979-80 was a lean season producing only 51.48 lakh tonnes of sugar, but it is expected to touch the figure of 51.43 lakh tonnes in 1980-81 and 70 lakh tonnes in 1981-82. Taking the consumption level of sugar at 57 lakh tonnes in 1981-82, it leaves a stock of 13 lakh tonnes which could be conveniently exported if the price of the sugarcane is not to be brought down or allow the price of sugar to fall, putting the mills in loss. Besides, by this export, the mills will earn the export subsidy. But
export of sugar is again under the control of the Government.

10. WORKING CAPITAL

The sugar units have all experienced acute shortage of working capital. Sugar industry being seasonal, working capital is required heavily doing the crushing season. The requirement of this working capital would be only temporary provided there is a cash inflow due to the sale of the output. But this is not so. The sale and distribution of the 'levy' and 'free' sugar is controlled by the Government. There is monthly release of the quota, hence the mills have to carry over the stock, thus locking the working capital over a longer period. This entails payment of interest by the mills taking away a substantial chunk of the profits. The Reserve Bank of India when it grants credit to the sugar industry, takes its past performance, forgetting the better yield of cane or the increased crushing capacity of the units. Thus, all the units have complained of the lack of adequate working capital for the units necessitating the postponement of payment for the primary producers.
11. BUFFER STOCK

It is quite imperative that the Government should build its own buffer stock to relieve the units of the anxiety of holding the stock and bringing down the prices. This is all the more necessary during the year 1980-81 and 1981-82 as the production is expected to touch an all-time record of 71 lakh tonnes leaving a balance of about 13-14 lakh tonnes over the normal consumption. This may either be exported as suggested earlier or held in stock by the Government to prevent a steep fall in sugar prices, thereby affecting the interests of the cane growers and the mill owners.

RECOMMENDATIONS

The Corporate sugar units which are under 'Brick (deep) red' has got to be pulled out of this severe 'diabetic' condition. We suggest the following measures for uplifting them from the present position and to make the industry attractive in a capital market to play its legitimate part in the economy of the country.

1. AN AGRO-BASED INDUSTRY

Sugar industry is an agro-based industry heavily
relying on cane, which is grown in farms owned and cultivated on a small scale. This sets many constraints on the industry. The farmer must feel that he is getting a better price than the other crops for raising it. Therefore, the price paid to the producer of cane must cover his cost of cultivation, leaving substantial margin for his maintenance. However, the interests of the mills also cannot be ignored. The farmer has to be, therefore, made a 'partner' in the prosperity of the mill. In the prosperity of the mill lies his prosperity. Therefore, it is always desirable that the suppliers of cane should be represented on the management of the mill. A mill derives its cane in the radium of 50 - 60 kilometers and covers about 6000 to 8000 hectares of cane. Thus, it is possible to involve the cane growers with the management of the sugar mill for a smooth functioning.

2. THE BY-PRODUCTS

Filtered press-mud could be treated with some chemicals to convert it into fertilisers. Some of the units in Karnataka State are already experimenting on this. This fertiliser unit attached to the main manufacturing sugar could be started and fertilisers distributed to the farmers who will be supplying the
cane, at a concessional rate. This would result in better use of the by-product as well as a subsidy to the cane supplier. The fertilisers thus supplied may be free of excise duty, as it entails consumption by the suppliers of the raw material - that is cane.

3. HIGHER PERCENTAGE OF 'FREE SALE' SUGAR

The present Government policy of allowing 35% of the production only for free sale by the sugar industrial units is highly insufficient to cover (1) the loss on the 'levy price' sugar, and (2) allow the reasonable profit or return on the capital invested. Hence, it is desirable, if at all this policy is to be continued in the interest of the consumers, to raise the 'free sale' quota to 50%.

With the increase in the production of sugar during the season of 1981-82 when the production is expected to touch 70 lakh tonnes, the levy sugar quota will be pretty high, which will satisfy the general demand for sugar by the consumers, leaving no demand for 'free sale' sugar, the price of which will naturally collapse, as a result of it. This will naturally put the
sugar units again in a loss. So, it is recommended that at least 50% of the production be allowed to sell under 'free sale' by the sugar units.

This concession is already given to the new units which are going to be commissioned in 1981-82 and when new plant is installed. But it is no relief to the existing units, which alone are in need of the protection.

4. TAX RELIEF

Being an agro-based industry, there is a suggestion that sugarcane cultivation may be treated as sugarcane plantation industry and tax concessions, nay tax exemptions as given in respect of coffee, rubber and tea plantations, may also be extended to the sugarcane plantations. This will go a long way in the rural development and rural employment, resulting in the agro-industrial integration.

5. TAX SIMPLIFICATIONS

There are many tax reliefs, exemptions, concession in excise duty and purchase tax. These reliefs exemptions and concessions are touching only
a fringe of the taxes. Besides, these exemptions are subject to various interpretations by the tax authorities, leading to conflicts and matters being taken to tax tribunals and High Courts. Almost all sugar units have approached the legal authorities for settlement of the tax matters. This establishes a strong case for simplification of taxes leaving very little scope for diverse interpretations. Tax experts like Nani Palkhiwala is in favour of tax simplifications. Various expert committees like Wanchoo and Chokshi Committees are also in favour of tax simplifications.

6. HIGHER DEPRECIATION

It is quite imperative that higher depreciation should be allowed on the plants and machinery as the historical cost method is outdated and works to the utmost disadvantage to the units, during the inflation period. It is suggested that, the historical cost basis is replaced by 'replacement cost' basis. The cost of machinery is rising every year, and at the same time, the plant and machinery is becoming obsolete with expanding technology. For example, it is advised now to install gas turbines instead of the heating boilers which are consuming the bagasse and costly firewood and
coal which is not easily available in the South. Depreciation is the lifeline to maintain the steady production in an industry and, therefore, adequate depreciation on the replacement basis is the only answer for it.

7. REALISTIC CREDIT POLICY WANTED

Sugar industry being seasonal, the credit requirement for working capital purposes is felt most during the crushing season. The policy of the Reserve Bank of India in this respect has been not very favourable and realistic. For example, the Reserve Bank of India had directed all the Scheduled Banks to sanction cash credit limits for sugar mills equal only to the maximum amount availed in the last sugar season. This will hit the sugar industry severely because last year the production was 54 lakh tonnes, whereas the output this year is expected to be 70 lakh tonnes, a rise of 36%. The industry will naturally need more credit as a result of higher production.

The credit needs of sugar units in the corporate sector and the public sectors, who depend on the nationalised commercial banks, is estimated at ₹ 667 crores
including ₹84 crores towards inventory of stores, spare parts, etc. Thus, they are bound to run into trouble by January, 1982, when they exhaust the existing credit limit fixed as per last season. This is exactly what happened in 1977-78 when among other factors, inadequate bank credit seriously curtailed the ability of the sugar factories to ensure prompt payment resulting in cane price arrears touching about ₹100 crores during the season.

But today the mills withholding payment to cane growers will expose themselves to the risk of Government takeover, when the arrears of payment at any given point exceed 10% of the value of the cane purchased in the preceding year.

We are, therefore, of opinion that a realistic and liberal credit policy is essential for providing adequate working capital requirements for the sugar industry.

8. EQUITY IN EXCISE DUTY

Excise duty levied on 'levy sugar' is far lower than on the 'free sugar'. This dual policy of excise
duty has affected the profits of the sugar units in Corporate sector giving rise to considerable arbitrariness in the fixation of price of the 'free sale sugar' every month and charging the 'duty' 'advalorem'. It is, therefore, recommended that a uniform excise duty both on 'levy' and 'free' sale sugar would go a long way in giving a relief in the manipulation.

9. EXEMPTION OF PURCHASE TAX AND THE ENTRY TAX

Karnataka State has the highest rate of purchase tax levied on the cane purchased by the mills. This has affected the cost of production of sugar by the units in Karnataka.

The purchase tax at ₹18.60 per tonne of cane is high by all the standards. Though a concession has been announced to use part of it for the development of the approach roads around the mill and the rest to be given to the producers of the cane, the fact remains that it is an additional burden on the mills, for the purchase of cane. It may be remembered that the mills are already paying a high price for cane, - the price being fixed by the Central Government and a still higher
price recommended by the advisory body of the State Government to satisfy the Kisan agitators. It is, therefore, recommended that the purchase tax be done away with completely as it totally affects the cost of production adversely. One unit has been affected by the entry tax levied on the entry of sugarcane in the municipal limits. This must be done away with or permission given to shift the unit to an area outside the Municipal limits, for better facilities. As the latter suggestion involves considerable expenditure on shifting of the assets, it is advisable for the present to abolish the entry tax on sugar cane.

10. NEED FOR MODERNISATION OF PLANTS

The units working in Karnataka are old except two (of which one is a subsidiary unit) which need to be replaced by modern machinery for better results. Besides, there is considerable scope for installing modern machineries for handling cane, stockpiling it, for internal movement, etc. The use of machinery will help a lot in reducing the cost of production of sugar.
11. BETTER PRICE FOR MOLASSES

Molasses is one of the important by-products of the sugar manufacturing process. But the fixation of price and its distribution of molasses is with the State Government. The price fixed by the Government is not based on the sound principle of 'joint product'. As a result, the units which could have substantially recovered the cost of production on the by-products is lost to it. Besides, the distribution has posed a big problem to the units to hold it by locking up its working capital as well. There is a great demand for molasses in the country. The demand for molasses is far more than the supply resulting in higher price for it. This benefit of higher price has got to be extended to the sugar units, who are the legitimate owners of it. It is, therefore, recommended that a higher price be paid for the molasses produced by the units. In fact, every encouragement should be given to the units to establish their distilleries to utilise the molasses and plough back the profits.

12. RESEARCH IN THE USE OF BY-PRODUCTS NEEDED

Sugar units produce large number of by-products in the process of manufacturing sugar. A judicious mixture of some chemicals with press-mud can result
in the manufacturer of fertilisers which can be sold to the producers of cane for better cultivation. Bagasse can be used for manufacture of paper, cardboard, hardboard, wrapping paper, etc. Similarly, molasses can be used for potable and power alcohol. In this way, it is essential to undertake extensive R and D for lowering the cost of production and increasing the efficiency of the units. Though tax relief is given for R and D, each unit cannot undertake it for they have their own limitations of technical personnel and material as well as resources. A Central organisation should be established to undertake the industrial exploitation of the various by-products.

We recommend that each unit should contribute towards such R and D and utilise its and products for lowering the overall cost of production.

13. APPROACH ROADS

When a sugar mill is established, it is always desirable to have a network of approach roads to it from various sugar plantations around a radius of 50 to 60 kilometers. The farms are all spread and spaced in between various other farms raising different crops.
The vehicular road is invariably lacking. This becomes difficult for the movement of cane when it is cut. A fast movement of cane when it is cut and an immediate use of it, gives a better recovery percentage.

It is, therefore, imperative that a well planned approach road in the periphery of the mill covering a distance of 60 kilometers in radium with the mill as the central point is absolutely necessary. The expenditure on this approach road has got to be met by the mill, the cane grower and the State Government as these are the immediate beneficiaries of it. We recommend that all the three agencies should jointly share the expenditure on this item in equal proportion. The central pool, known as Road Development Pool or Fund may be created and plans of the roads executed by a special agency. This special agency is suggested because, the road construction here has nothing to do with the Public Works Department of the State or Central Government or the Rural Development.

14. BETTER TRANSPORT FACILITIES

As it is, the mills insist that the cane be brought to the gate by the growers for purchase by them.
Due to lack of better transport facilities, the growers transport the cane in their bullock carts, causing delay in transport and creating many bottlenecks in the transport system. It is a common day experience that the producer has to stay for a day or two to unload his cart and go back again to his farm to bring another cart load, thus repeating this performance over a number of days resulting in considerable loss of men-days, dryness of the cane and transport bottlenecks. It is advisable that each sugar unit should keep in readiness a fleet of quick moving transport, useful for farms with standard rates fixed for carrying the cane.

This will prove a blessing in disguise to the cane growers, better recovery for the mills by way of quick use of cane, and result in the supply of right quantity of cane for fuller utilisation of the daily crushing capacity of the mills. We recommend that a fleet of tractors be kept ready for this purpose. These very tractors may be later on utilised by the farmers on rental basis for cultivation of their lands, and transport of other goods and inputs for the farms, such as fertilisers processed by the sugar units themselves.
15. POLICY ON KHANDASARI

A firm policy on the Khandasari units is necessary for the proper growth of sugar industry as the former is in the unorganised sector having an unhealthy competition with organised sector. Government has levied many restrictions on the purchase of cane by the Khandasari units in areas where corporate sector units are working. Even the concessional rate of excise duty applicable to Khandasari units was withdrawn and a ban imposed on the operations of Khandasari units till the end of December, 1980. But these are piecemeal policies. It is desirable and we, therefore, recommend that a high power committee be appointed to review the policy on the working of the Khandasari units and recommend permanent measures to avoid the unhealthy competition between the Khadasari units and the Corporate sector sugar industry, for smooth working of both the sectors.

16. EXPORT POLICY FOR SUGAR

With the increased production of sugar, it has got to be exported, if the production rate has to be maintained. Apart from the fulfilment of the commitment under the International Sugar Agreement, it is desirable
to encourage greater exports of sugar to avoid the possibility of fall in the domestic price. An export of about 10 lakh tonnes of sugar can be easily undertaken with a firm export policy and the subsidy announced by the Government. A permanent export policy on sugar will be helpful in planning a production schedule for the units in the corporate sector.

CONCLUSION

Sugar industry is a 'diabetic' industry which suffers silently, but left to itself is sure to experience all the consequences of an acute 'diabetic' disease. If proper care is taken, the industry is bound to survive. The corporate sector sugar units in Karnataka will be out of red, during the year 1981-82 crushing season as it is an year with increased production, and greater incentives. What is necessary is a permanent policy for this industry which is agro-based and second only in employment and importance to the textile industry. It is a big backbone in the developing economy which requires every encouragement. Taxation has affected this industry considerably, and tax concession are only temporary reliefs. It is desirable to have a simplified
tax structure with an assured return on the capital invested for the proper functioning of the industry.

We are confident that the corporate sugar industry in Karnataka, with the above recommendations followed, is sure to come out of the 'present' position of being in the 'red', and play its legitimate role as an agro-based industry, in the economy of the nation.