INTRODUCTION:

Sugar Industry is one of the most vital industries and is also the second largest industry in the country. It has given employment for millions of people all over the country both direct and indirect, with 350 units in working condition at the end of 1981. The gross value of the products produced apart from the value of the subsidiary products amounted to Rs. 1,300 crores. There are various subsidiary industries based on the by-products of sugar industry. Thus, there are 124 alcohol units (Distilleries and Breweries) producing various kinds of foreign wines. They are capable of producing power alcohol thereby replacing the import of petrol and petroleum products. Besides, a few mills are using bagasse for manufacturing paper, furniture, construction, chemicals, fertilisers (bio-manure and fuel power, bio-gas). The other by-products like pressmud is used for fertiliser industry, distemper, cement, dyestuff, lime carbon, paper, wax paper, shoe polish and cane wax etc..

The waste molasses is used as animal feed. The molasses is also converted into industrial uses as CO2 in aerated water bottling, as ascetic acid for plastics,
textiles, photo chemicals etc. The use of the by-products of sugar cane are multifarious and are a distinct aid to many ancillary industries giving employment to thousands of people.

I. SUGAR INDUSTRY IN THE NATIONAL ECONOMY OF INDIA

Sugar Industry like Cotton Textile Industry is an agro-based industry. It has an important role and a stake in the national economy. It is responsible for bringing about an agro-industrial integration which is the crying need to-day for the upliftment of the rural economy, which again forms the backbone of the developing economy. The importance of the sugar industry can be understood when we analyse the objectives of the process of integration.

i) An agro-industrial integration results in an industrial culture in the rural areas through the industries which have close association with agriculture, resulting further in industrial development and agricultural development moving hand in hand.

ii) It sets the rural parts of the country into the self-generating economic units by villagers taking active part in the industrial labour, capital and even entrepreneurial skill.

iii) It sets in a process of integration, the villagers developing a sense of belonging
to the industrial units, directly or indirectly, identifying their prosperity through such activities.

iv) This results in the complementality of agricultural development with industrial expansion. This will further create a steady supply of industrial leaders from the rural areas.

The agro-industrial integration results in geographical dispersion, labour absorption of the locality and contributes enormously to the growth of the region.

The first stage of the process of integration results in the absolute increase in the acreage under sugar cultivation. An average factory directly consumes the cane raised over an area of any 1500 to 2000 acres within a radius of 50/60 kilometers of the factory.

The second stage in the process of integration is the assured market for the sugar cane, giving an added advantage to the cultivators.

The third stage results in the improvement in the methods of cultivation of sugar cane resulting in higher productivity whereby the farmers ultimately stand to gain.
SUBSIDIARY UNITS:

With the establishment of a sugar mill, and its product lines, it results in the growth of subsidiary and ancillary agro-units, agro servicing units, growth in transport and communications. Besides, there is an increase in banking and credit institutions, more and better houses and increased educational facilities. Thus, there will be an over-all economic growth of the region through the multiplier effect.

As pointed out earlier, more units, using its by-products like potable alcohol, the rectified spirit, bugasse, pressmud etc. will come up, giving rise to increase in employment and generation of additional income.

Thus, the simple agro-based industry using sugar-cane with its agro-industrial integration, acts as a catalytic agent for further industrialisation. It is rightly said, therefore, that in a developing economy, instead of blindly imitating the developed economics of the West, who have no agricultural base (with countries like the U.K. and other European countries) it is better to develop agriculture and utilise its products in the manufacturing process, thereby industrialising the country without affecting the agriculture.
In view of the above factors, the sugar industry assumes a vital importance in the economy of a fast developing country like India.

II. PROFITABILITY OF SUGAR INDUSTRY IN INDIA

With all the advantages associated with agro-industrial integration in respect of sugar industry that we have analysed earlier, it is not showing any buoyancy through maximisation of profits. There are 350 licenced factories as on May 1981 of which 129 units are working in private sector and 177 in the co-operative sector in the country with the total licenced capacity of 76.06 lakh tonnes licenced capacity in 1981, it is expected that only 63.13 lakh tonnes capacity is used. The unutilised capacity to the tune of 4.23 lakh tonnes is due to non-commissioning of 27 new sugar mills. Another 8.70 lakh tonnes is accounted for by expansion schemes of 86 factories, including 17 registered under the liberal licencing policy. Of the 27 new factories, to be commissioned, 25 are in the co-operative sector and one each in public sector. Only 9 co-operative mills have as yet placed order for plants and machinery.¹

The above facts show that there are only 129 sugar factories in the private sector, the majority of the mills being in the co-operative sector whose dividend policy is governed by the co-operative Acts of the State, which place a restriction on the dividend to be declared by the units.

PROFITABILITY OF SUGAR UNITS IN PRIVATE SECTOR

The profitability of the sugar Industry in private sector has gone down enormously in the past five years over which we have conducted an intensive analysis of the working of the units. This is due to:

i) The pricing policy of the sugar followed by the Government control, which we have analysed in the following pages;

ii) Price of sugar-cane fixed by the Central Government and the recommended price of sugar-cane fixed by the States for payment to the cane suppliers;

iii) The agitation of the producers of the cane for higher price, the agitation being backed by political parties without any basis as to its cost either to the producer of the cane or the manufacturer of the sugar;

iv) The private sector sugar industries are yet to modernise their plants and machinery;
v) The low recovery in respect of such units, located in States like the U.P. which has resulted in large numbers of sick units.

The loss suffered by sugar industry in 1977-78 alone was Rs. 200 crores. This loss was Rs. 46 crores in 1976-77. Thus, in the year 1978-79 there was a backlog of Rs. 246 crores loss which by all standards is considered to be very heavy for the industry to carry forward. We have surveyed the sugar units listed in the Madras Stock Exchange during the past five years beginning from 1975-76 to 1979-80. The results are very interesting. Out of the 22 private sector units examined by us, during that period, only five units have paid dividend regularly during all the five years. Five mills have paid dividend only once or twice whereas 12 units have completely skipped over the dividend during that period. The number of sick or on the verge of being sick units is increasing. This itself shows how majority of the private sector units are not getting any returns on their capital invested. The reasons are not far to seek. We have tried to analyse in the following pages, the prominent reasons for the same.

Here it is interesting to note the research conducted by Shri V.S. Singh, Joint Director, State Planning Institute, U.P. and Shri Banware Lal, Senior Research Officer, State Planning Institute of U.P. in their interesting article
"preformance of Sugar Industry in U.P." They have worked out various ratios to show the poor returns on the capital employed by Sugar Industry in the U.P. It is pertinent to note that there are large number of sugar mills in the private sector in the U.P. hence, their studies are very revealing.

OPERATIONAL RATIOS DETERMINING THE PROFITABILITY OF SUGAR MILLS

Financial analysis of sugar industry has been done with the help of some operational ratios which would reflect the working conditions of the industry.

1. RATIO OF WAGES TO PRODUCTION

The ratio of total wages to production, which shows the amount of wages paid per hundred rupees of production is given below:
<table>
<thead>
<tr>
<th>UNIT</th>
<th>1971-72</th>
<th>1973-74</th>
<th>1974-75</th>
<th>1975-76</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total wages (Rs.'000)</td>
<td>1,75,519</td>
<td>1,93,548</td>
<td>2,47,505</td>
<td>3,21,134</td>
</tr>
<tr>
<td>2. Production (Rs.'000)</td>
<td>17,54,386</td>
<td>22,16,542</td>
<td>27,46,388</td>
<td>31,68,004</td>
</tr>
<tr>
<td>3. Ratio (Wages as % of production)</td>
<td>10.00</td>
<td>8.73</td>
<td>9.01</td>
<td>10.14</td>
</tr>
<tr>
<td>4. Gross profit (Rs.'000)</td>
<td>80,423</td>
<td>1,30,507</td>
<td>(-)1,167</td>
<td>(-)13,255</td>
</tr>
<tr>
<td>5. Capital employed (Rs. '000)</td>
<td>16,40,435</td>
<td>9,94,723</td>
<td>14,27,580</td>
<td>16,85,635</td>
</tr>
<tr>
<td>6. Ratio % (Gross profit as % of capital employed)</td>
<td>0.05</td>
<td>0.15</td>
<td>(-)0.08</td>
<td>(-)0.79</td>
</tr>
<tr>
<td>7. Fixed Assets (Rs. '000)</td>
<td>2,77,040</td>
<td>2,77,071</td>
<td>3,58,453</td>
<td>3,64,590</td>
</tr>
<tr>
<td>8. Ratio % (Fixed assets as % of capital employed)</td>
<td>16.89</td>
<td>27.85</td>
<td>25.11</td>
<td>21.63</td>
</tr>
</tbody>
</table>

SOURCE: Annual Surveys of Industries U.P.

(The above table is also graphically presented on the next page)
The proportion of wage cost, which was found to be 10 per cent in 1971-72 came down to 8.73 per cent in 1973-74 only to rise again in 1974-75 and 1975-76 to cross the level of 1971-72. If we interpret reciprocally, that is the value of production per hundred rupees of wages, it would reveal that the value of production which was as high as Rs. 1,145 in 1973-75, consistently decreased to Rs. 986 in two consecutive years. This analysis indicates that wage bills are on the increase without keeping in pace with production which is indicative of the lesser retained profits with the manufacturers. This has resulted in the reduction of investible surplus with the manufacturers which would result in slowing down of the production process.

2. GROSS PROFIT TO CAPITAL EMPLOYED:

The figures in the above table No. III.1 go to show that at the end of 1971-72, the capital employed was Rs. 164 crore. There was a decrease in 1973-74 which was due to the fall in the working capital as fixed capital remained almost stationary in 1971-72 and 1973-74. The capital employed after 1973-74 consistently increased and reached the level of Rs. 169 crores at the end of 1975-76, a little more than what it was in 1971-72. The industry ran into losses in 1973-74 and 1974-75 after earning profits during the previous two years, as a result, the ratio of gross profits to capital employed which indicates the return
on capital invested, went negative. This may be due to the under-utilisation of capital employed and increase in the administrative as also other recurring expenditure.

3. THE RATIO OF FIXED ASSETS TO CAPITAL EMPLOYED

The ratio of fixed assets to capital employed was about 17 per cent in 1971-72 which increased to more than half times in 1973-74, but thereafter, it consistently declined in 1974-75 (25%) and 1975-76 (22%) which was reflected in the inventories. The accumulation of inventories may be attributed as one of the factors for the losses of the industry.

The above ratios, representative as they are, clearly reveal the trend which the industry witnessed such as rise in wage payments, increase in administrative expenses, rise in cost in holding large stocks or inventories, under-utilisation of the capital or the capacity of the industry. These were the factors which reduced the profits and ran the industry in losses in 1976-77 and 1977-78 and 1978-79.

There were other reasons for the losses or for the inroads on the profits of the sugar industry such as the price policy of the Government, competition of the Khandasari, diversion of the use of sugar-cane for other than crushing for sugar by the mills.

We have analysed the major problems faced by the sugar industry in the pages following.
III. MAJOR PROBLEMS FACED BY SUGAR INDUSTRY

The major problems faced by sugar industry in India revolves mainly around the pricing policy of the Government. It is working as a great constraint against maximisation of profits — may, it will not be wrong to say, that it is a major cause for incurring losses by majority of the units. In spite of the record output and high capacity utilisation, majority of sugar factories have been incurring heavy losses due to unremunerative selling price of sugar.

The dual pricing policy has hit hard the mills while the cost of inputs is increasing every year. The realisation from sales of sugar was much lower than the cost. In 1979-80 season, the unit cost of production of sugar was calculated at Rs. 335 per quintal in South Bihar which was the highest, whereas it was Rs. 302.56 in Karnataka State, the lowest being Rs. 255.86 in Gujarat, where there are lowest number of sugar mills in India compared to its size.

The factories were asked to deliver levy sugar which was 65 per cent of the production of the production of the mill at an average ex-factory price of Rs. 229.44 a quintal in 1979-80. The levy price for mills in South Bihar whose unit cost of production was 335.86 was paid Rs. 312.75, Karnataka Mills were paid Rs. 233.45 and Gujarat Rs. 208.45.
Thus, the deficit or the loss incurred on the levy sugar had to be covered in the 35 per cent sale of the free sugar by the mills. For the 35 per cent free sale, the mills had to face the competition from the Khandasari and the alternative product, jaggery. This was a task that no private sector industry could successfully face.

1. EXCISE DUTY:

Another problem faced by sugar mills was the levy of excise duty on free sales of sugar. The hikes in excise duty to 45 per cent ad-valorem was levied in March 1975. Besides the excise, the purchase tax (sales tax) was imposed by the State Governments from 1972-73 to 1977-78. The purchase tax which was levied on the factories on an average rate of Rs. 5/- per tonne in 1972-73 was raised to Rs. 16/- in 1977-78 and Rs. 18/- in 1979-80. This was an additional burden on the selling cost, and proved to be the proverbial last straw on the back of the camel.

2. COLLAPSE OF FREE MARKET:

The third problem was the set-back to the industry due to the collapse of the free market in sugar as a consequence to the higher releases made by the Government. At the end of the season on 30th September, 1977, the industry carried over a huge stock of 13.8 lakh tonnes which
was almost double the previous year's closing stock of 8.32 lakh tonnes. The higher stocks involved an additional financial burden of Rs. 150 crores. For the year 1977-78, the carry over stock was 15.8 tonnes, and at the end of September 1978 it was 29.4 lakh tonnes.

On top of it recently, the Government imported sugar to combat the rising market price of sugar which again upset the market conditions for the prices of the free sale of sugar.  

3. DEMAND FOR HIGHER PRICE FOR SUGAR CANE:

Escalating cane prices, (the demand for cane price is now anywhere ranging from Rs. 350 to Rs. 500 per ton since, the demand for the high price has the backing of political leaders like Sri H.S. Rudrappa in Karnataka and Sri Sarad Joshi in Maharashtra and Thiru Narayanaswami Naidu in Tamil Nadu) heavy burden of excise and purchase taxes, loss in free sugar sales, collapse of free market in sugar due to heavy releases ordered by the Government, huge carry over stock, slow down in exports and the policy of imports to combat the temporary rise in prices, has all resulted in heavy loss to the industry. It was admitted in Parliament.

that the loss incurred by sugar industry during 1976-77 was about Rs.40 crores. The Indian Sugar Mills Association estimated a loss of Rs.100 crores during 1977-78. The loss estimated during 1979-80 was at Rs.40 crores.

4. SICK MILLS:

The number of units incurring losses continuously over a period of years is increasing steadily thanks to the policy of the Government.

The percentage of the sick mills increased surely and steadily from 57 per cent in 1974-75 to 75 per cent in 1976-77 and to 89 per cent in 1977-78. The study of the Reserve Bank of India has also revealed the same sorry state of affairs as regards the dwindling profits of the industrial units. The study revealed that the average gross profit as percentage of capital employed, during the period 1960-61 to 1975-76 was 9.1 per cent for the sugar industry as against a gross return of 12.5 per cent as recommended by the tariff commission.

Unlike other industries sugar is a seasonal industry and its financial requirements are heavy during the crushing period. The industry whose annual production is worth 1300/1400 crores which pays Rs.650 crores to the millions of cane growers, Rs. 225 crores to the exchequer.
in the form of Central Excise and Rs.75 crores towards State levies, giving employment to millions of workers all over the country, deserves a better deal, if it has to play its legitimate role in the national economy.

5. GOVERNMENT AND PRICING POLICY OF SUGAR:

Sugar and sugar cane fall under the Essential Commodities Act, 1955.

The present status of sugar industry in India is:

i) it has a licensed capacity of 73 lakh tonnes of sugar covering 350 factories;

ii) installed capacity of 60 lakh tonnes covering 307 factories;

iii) estimated production in 1980-81 is 51.5 lakh tonnes;

iv) 70 per cent of the cost of sugar is accounted for the raw material.

The pricing policy for sugar cane is therefore, of greater importance.

The sugar cane (control) order 1966 issued under provisions of the Essential Commodities Act, 1955 provides under Section 3, fixation of minimum price of sugar cane to be paid by Vacum Pan Sugar Factories.
SECTION-3: Minimum price of Sugar Cane payable by producer of Sugar: (i) The Central Government may, after consultations with such authorities, bodies or associations as it may deem it, by notification in the official Gazette from time to time, fix the minimum price of sugar cane to be paid by producers of sugar or their agents for the sugar cane purchased by them, having regard to:

a) The cost of production of sugar cane;

b) The return to the grower from alternative crops and the general trend of price of agricultural commodities;

c) The availability of sugar to the consumer at a fair price;

d) The price at which sugar produced from the cane is sold by the producer of sugar; and

e) The recovery of sugar from such cane.

EXPLANATION: Different prices may be fixed for different qualities or varieties of sugar cane.

The actual fixation of the price of sugar cane is however, referred by the Government to the Agricultural Prices Commission, which consults all concerned interests,
viz. sugar cane cultivators, sugar cane producers, their representative organisations, State and Central Government and specialists in this field.

Keeping in view the statutory requirements, as laid down in the Sugar Cane (Control) Order 1966, the Commission recommends the price to be paid to the growers by factories. The Government takes the final decision and notifies the price.

The price for 1980-81 as notified on 7.10.1980 is Rs.13/- per quintal linked to a basic recovery of 8.5 per cent with proportionate increase for higher recoveries, viz. 15.2941 paise per quintal for every 0.1 per cent in recovery above 8.5 per cent. The notified minimum price range from Rs.13 to 18.35 per quintal of cane for different factories. The price is for delivery at factory gate.

Price of cane has to be such as to attract the producer to produce the cane and supply it to the factories, so that the installed capacity of the factories is fully utilised. It seems on an average, the Vacuum Pan Sugar Industry consumes about 38 per cent of the total cane grown in India.
6. PRICING POLICY FOR SUGAR;

In 1967 the Government introduced partial control policy being an alternative to full control or decontrol. Under this policy, Sugar is categorised into (a) Levy Sugar and (b) Free Sugar.

Under Essential Commodities Act, 1955, the Government fixes the price of the Levy Sugar under Section 3(3c), having regard to:

a) The minimum price, if any, fixed for Sugar Cane by the Central Government under this Section;

b) The manufacturing cost of sugar;

c) The duty or tax, if any, paid or payable thereon;

d) The securing of reasonable return on the capital employed in the business of manufacture of Sugar. Different prices may be fixed from time to time, for different areas, or for different factories or for different kinds of sugar.

The Government may refer to the Tariff Commission or the Bureau of Industrial Costs and price expert advise on Cost matters.

Currently the System adopted for fixing the price of sugar is:
i) To divide the factories in the country into different zones on a continuous basis with sub-zones in the U.P. and Bihar. There are now 16 such price zones;

ii) Before the season starts, on the basis of the notified minimum cane price per quintal for each factory in the zone, and other State levies such as purchase tax etc., the estimated cane to be crushed, the duration of season, and recovery % sugar, the weighted average of cane price per quintal duration (days) and recovery % Sugar for each zone is worked out;

iii) Based on the above data, the conversion cost in each zone is worked out;

iv) A seasonable return on the capital employed is recommended;

v) As the end of the season, the actual working results are known and on this basis, the price of Sugar as earlier fixed is reviewed and appropriate action taken.

The price of sugar for 1980-81 season was notified on 13.11.1980 and ranged from Rs. 344.90 to Rs. 270.18 per quintal in different zones for D 29 grades for ex-factory delivery. For the first time in 1980-81, a further addition to the levy price of Sugar of Rs. 25 per quintal had been provided for certain factories (57) which were categorised
as "Weak Units" (being over 25 years age and below 1,250 tonnes actual crushing capacity to help them over-come the weakness).

The above fixing up of price applied to 65 per cent of the production, (Levy Sugar) which was for public distribution by Government. Free market price determined by the demand and supply for sugar was for the 35 per cent of the production only. In this, the factories had to recover the loss in levy price as well as to make profits, if at all they make profits.

Presently, the average ex-duty price of levy sugar and free sugar per quintal ex-factory is Rs. 285/- and Rs. 540/- respectively. The incidence of higher cane price of Rs. 10/- per quintal on an average, works out to Rs. 100/- per quintal. So only the price of Rs. 570/- per quintal of free sugar ex-factory would meet this additional duty.

Besides the excise duty on levy Sugar is 13.175 per cent Ad-valorem which works out to Rs. 37.85 per quintal and on free sugar it is 15.9 per cent ad-valorem on a tariff value of Rs. 590/- as from 1.8.1981 = Rs. 93.80 per quintal. So, the price of sugar is higher by 56 per cent per quintal by way of excise duty only. To this add the cost of transport, handling, storage, wholeseller's commission etc., before the
sugar reaches the consumer at Rs.3.50 per Kg. for levy and Rs.675/- for free sale.

The Government to ensure continuous flow in the market releases:

- 2.71 lakh tonnes levy and
- 1.70 lakh tonnes free sugar

every month on an average.

There is steady market for levy sugar and the fluctuation of price is only around the free sugar depending upon the demand for various purposes and also world trends.

Therefore, there is need to ensure:

a) an economic price being notified as minimum price of sugar cane;

b) dis-continuation of State advised prices for sugar cane;

c) economic price for sugar;

d) proper control on releases; and

e) building up a buffer stock.

IV. TAXATION OF SUGAR INDUSTRY IN INDIA

Sugar Industry like any other organised industry is subject to payment of the following direct taxes:
1) Income tax
2) Corporation tax/Sur tax
3) Capital gains tax
4) Import and Export Duty.

The above taxes are all direct taxes calculated only after the profits are earned by the mills. We have analysed the rates fixed under various heads in the last chapter, so we do not intend to repeat the same except to say that the rates charged for co-operative sector units are different as co-operation is a State subject. It is interesting to note that a large number of Sugar units recently started in the last five years, are all coming under co-operative sector, since that is the policy of the Government. The old units which are under private sector are limping and are now considered to be 'Weak Units' requiring renovation and modernisation if at all they are to withstand the competition and the price policy of the Government.

However, all units have to pay the indirect tax like Excise and Cess/Purchase tax irrespective of the fact that they are making profits or losses, as long as they are crushing the cane to produce sugar. We will, therefore analyse the Excise duty paid in India by sugar mills in the past five years to analyse its effects on the industry as a whole.
EXCISE DUTY

The Table III clearly exhibits the complexities of the levy of excise duty by the Central Government on sugar. We have analysed the Excise duty levied in the last five years only beginning from 1-3-1975 to 1-6-1980.

During this short period of five years, the Excise duty was changed by as many times as ten. That means, there were two changes for each year. Besides, it is pertinent to note that the excise duty which is ad-valorem in nature, the value is fixed by the Government, every time, both on the levy sugar and the free sale sugar. Besides, there are two varieties of excise duties on the sugar produced by the factories during the same period. Excise duty is an indirect tax, the incidence of which is borne fully by the consumers. But, here the greater incidence is on the factories, particularly it is very heavy on the weaker units, as there is a price control over the 65 per cent of the production which is a levy sugar. As regards the remaining 35 per cent of the production, it is duty paid, based on the value fixed by the Government (ad-valorem) for purpose of the excise duty whereas the price fetched by this free sale sugar is dependent on the demand and supply as well as on the world price of the sugar, the import
policy of the Government, the monthly release of the quota for sale by the Government from the sevy sugar etc. Thus the excise duty is a cost added incident to the factory.

**TABLE NO. III.2**

**STATEMENT SHOWING RATES OF EXCISE DUTY ON SUGAR LEVY AND FREE SALE**

<table>
<thead>
<tr>
<th>Year and period</th>
<th>Basic</th>
<th>Additional</th>
<th>Total</th>
<th>Nature of Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 1.3.1975</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy sugar</td>
<td>15.00</td>
<td>5.00</td>
<td>20.00</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>Free sale sugar</td>
<td>30.50</td>
<td>7.50</td>
<td>37.50</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>From 3.8.1976</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy sugar</td>
<td>10.00</td>
<td>5.00</td>
<td>15.00</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>Free sale sugar</td>
<td>37.50</td>
<td>7.50</td>
<td>45.00</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>From 1.11.1976</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy sugar</td>
<td>10.00</td>
<td>5.00</td>
<td>15.00</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>Free sale sugar</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From 1.1.1977</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy sugar</td>
<td>10.00</td>
<td>5.00</td>
<td>15.00</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>Free sale sugar</td>
<td>37.50</td>
<td>7.50</td>
<td>45.00</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>From 1.11.1977</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy sugar</td>
<td>7.50</td>
<td>5.00</td>
<td>12.50</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>Free sale sugar</td>
<td>20.00</td>
<td>7.50</td>
<td>27.50</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>From 1.3.1978</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy sugar</td>
<td>7.875</td>
<td>5.00</td>
<td>12.875</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>Free sale sugar</td>
<td>21.00</td>
<td>7.50</td>
<td>28.500</td>
<td>% ad valorem</td>
</tr>
</tbody>
</table>

(contd)
<table>
<thead>
<tr>
<th>Date</th>
<th>Levy Sugar</th>
<th>Free Sale Sugar</th>
<th>Total</th>
<th>Ad Valorem</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 16.8.1978</td>
<td>12.075</td>
<td></td>
<td>18.075</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>From 30.11.1979</td>
<td>8.925</td>
<td>16.275</td>
<td>25.175</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>From 1.3.1980</td>
<td>8.925</td>
<td>11.550</td>
<td>20.475</td>
<td>% ad valorem</td>
</tr>
<tr>
<td>From 1.6.1980</td>
<td>8.925</td>
<td>8.400</td>
<td>17.325</td>
<td>% ad valorem</td>
</tr>
</tbody>
</table>


(The above table is presented graphically on the next page)

2. SUGAR CANE CESS/PURCHASE TAX

The factories in India have to pay the sugar cane cess or the purchase tax which is levied by the State Governments when they purchase cane for crushing purposes. This is an indirect tax and also subject to variations by the State Government every year. It is not uniform throughout the country. This adds to the confusion.
Graph showing rates of excise duty on sugar levy

TABLE NO. III 2
The Table No. III.3 gives an idea of the cane cess and/or purchase tax levied by the factories for crushing.

The cess/sales tax/purchase tax varies from 1 per cent in Andhra Pradesh to 13.2 per cent in Tamil Nadu. It has to be paid immediately after the purchase of the cane by the factories. As stated in respect of the excise duty, the incidence falls squarely on the factories. It is heavier than the excise duty as the value of sugar cane per ton is ₹130.00. The incidence of purchase tax, works out to be roughly 17 per cent in Tamil Nadu. Therefore, the impact of the cess/purchase tax is very heavy on the industry. It is an additional burden to the mounting cost per unit of sugar production. Since these taxes are not taken into account for determining the cost per unit (being taxes), the effect of these indirect taxes are the clear inroads on the profits of the manufacturing units. They have a determining influence on the profits of the sugar mills.
TABLE III.3

STATEMENT SHOWING SUGAR CANE CESS/PURCHASE TAX IN DIFFERENT STATES IN INDIA

<table>
<thead>
<tr>
<th>State</th>
<th>Rate per quintal (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTTAR PRADESH</td>
<td>1.25</td>
</tr>
<tr>
<td>BIHAR</td>
<td>1.00 plus 1 per cent on value of cane on market fee.</td>
</tr>
<tr>
<td>HARYANA AND PUNJAB</td>
<td>0.24 cess plus 6 per cent as purchase tax on the value of cane and 2 per cent sales tax thereon.</td>
</tr>
<tr>
<td>MADHYA PRADESH</td>
<td>3 per cent on value of cane plus 1 per cent turnover tax.</td>
</tr>
<tr>
<td>GUJARAT</td>
<td>8.8 per cent on value of cane.</td>
</tr>
<tr>
<td>MAHARASHTRA</td>
<td>1.66</td>
</tr>
<tr>
<td>KARNATAKA</td>
<td>1.92 plus market fee @ 2 per cent on value of cane.</td>
</tr>
<tr>
<td>ANDHRA PRADESH</td>
<td>1.00</td>
</tr>
<tr>
<td>TAMIL NADU</td>
<td>0.5 plus 12.7 per cent value of cane as purchase tax.</td>
</tr>
<tr>
<td>KERALA</td>
<td>5 per cent of the value of cane plus 8 per cent surcharge.</td>
</tr>
<tr>
<td>ORISSA</td>
<td>4.2 per cent on value of cane.</td>
</tr>
</tbody>
</table>

CO-OPERATIVE SOCIETIES COMMISSION

Besides cane cess/purchase tax on cane, the factories in U.P., Bihar, Punjab & Haryana have also to pay co-operative Societies Commission at the following rates:

<table>
<thead>
<tr>
<th>State</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTTAR PRADESH</td>
<td>0.20</td>
</tr>
<tr>
<td>BIHAR</td>
<td>0.13</td>
</tr>
<tr>
<td>PUNJAB</td>
<td>0.15</td>
</tr>
<tr>
<td>HARYANA</td>
<td>0.20</td>
</tr>
<tr>
<td>MADHYA PRADESH</td>
<td>0.08</td>
</tr>
</tbody>
</table>

V. DIVIDEND AND DIVIDEND POLICY

DEFINITION OF DIVIDEND

Dividend is defined as "the amount distributed by a limited company to the shareholders out of the profits earned by the limited company". This definition is from the concept of accounting.

Section 205 of the Indian Companies Act, 1956 states basic principles about the dividend. The Companies Act, 1956 does not define the term dividend, nor does it give any specific power to companies registered thereunder to declare and pay any dividend. However, no dividend can be paid out of the capital. Further, Section 205/1 provides that dividend can be paid out of the following two sources:

i) Profits of the current year; and

ii) Undistributed profits of preceding several years.

DIVIDEND UNDER INDIAN INCOME TAX ACT 1961

Section 2(22) of the Indian Income Tax Act, 1961 states that dividend includes:

a) Any distribution by a Company of accumulated profits, whether capitalised or not, if such
distribution entails to realise value by the company to the shareholders of all or any part of the assets of the company;

b) Any distribution to its shareholders by a company of debentures, debenture stock, or deposit certificates in any form, whether with or without interest and any distribution to its preference shareholders by way of bonus to the extent to which the Company possesses accumulated profits, whether capitalised or not;

c) Any distribution made to the shareholders of a company on its liquidation to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation whether capitalised or not;

d) Any distribution to its shareholders by a company on the reduction of its capital to the extent to which the company possesses accumulated profits which arose after the end of the previous year ending next before the 1st day of April, 1933 whether such accumulated profits have been capitalised or not;

e) Any payment by a company, not being a company in which the public are substantially interested, of any sum (whether as representing a part of the assets of the company or otherwise) by way of advance or loan to a shareholder being a
person who has a substantial interest in the company or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits. But dividend does not include — (1) a distribution made in accordance with sub-clause (c) of sub-clause (d) in respect of any share issued for full cash consideration where the holder of the share is not entitled in the event of liquidation to participate in the surplus assets; in a distribution made in accordance with sub-clause (c) or sub-clause (d) in so far as such distribution is attributable to the capitalised profits of the company representing bonus shares allotted to its equity shareholders after the 31st day of March, 1964 and before the first day of April, 1965.

ii) Any advance or loan made to the shareholder by a company in the ordinary course of its business, where lending of money is a substantial part of the business of the company;

iii) Any dividend paid by a company which is set off by the company against the whole or any part of any sum previously paid by it and treated as a dividend within the meaning of sub-clause (c) to the extent to which it is so set off.
The above explanation as given by the Indian Income Tax Act, 1961 is stated more clearly in the layman's language to avoid confusion.

EXPLANATION TO THE SECTION 2(22)

The definition of dividend given in Section 2 (22) is an exclusive and not an exhaustive definition. The ordinary meaning of dividend is the receipt by a shareholder of part of profits of the company of which he is a shareholder.

Section 2 (22) merely extends the definition of dividend so as to include therein five items of distribution by a company which normally may not be regarded as dividend. These five instances of dividend are all cases of distribution or payment out of or to the extent of accumulated profits of the company. These five items are:

a) DISTRIBUTION ENTailing REleasing OF COMPANY'S ASSETS

Dividend includes any distribution by a company which is out of accumulated profits, whether capitalised or not and which entails a release by the company to its shareholders of any of its assets. A distribution of accumulated profits, whether capitalised or not which
does not entail a release by the company of its assets, would not be dividend.

**BONUS SHARES**

When a company capitalises its accumulated profits whether capitalised or not and which entails a release by the company's assets. Therefore, bonus shares are not included in the term dividend when they are issued to equity shareholders, but as stated below bonus shares issued to preference shareholders are deemed to be divided liable for tax today.

**b) BONUS DEBENTURES**

A distribution of bonus debentures, debenture stock or deposit certificates in any form, by a company to its shareholders, is dividend in the hands of shareholders to the extent to which the company possesses accumulated profits whether capitalised or not. The same is the case with bonus shares to preference shareholders of a company.

**c) DISTRIBUTION ON LIQUIDATION OF COMPANY**

A distribution made to the shareholders of a company on its liquidation is dividend in the hands of the shareholders, to the extent to which the distribution is attributable to the accumulated profits of the company
whether capitalised or not. The distribution on liquidation out of the accumulated profits of any past year and even out of the current profits of the year of liquidation but upto the date of liquidation, is taxable as dividend (60 ITR 83). However, any distribution out of the profits of the company after the date of liquidation would not be dividend (56 ITR 393).

d) DISTRIBUTION ON REDUCTION OF CAPITAL

A distribution to its shareholders by a company on the reduction of its share capital is dividend to the extent of its accumulated profits whether such accumulated profits have been capitalised or not.

The date of appropriate resolution of the company, and not the date of distribution among the shareholders fixes the date for ascertaining the quantum of accumulated profits (56 ITR 1).

e) LOANS OF SHAREHOLDERS ETC.

The following three types of payment made by a company (in which the public are not substantially interested) to its shareholders (who have a substantial interest in company, i.e., who own beneficially atleast 20 per cent of the equity share capital) are dividends in their hands.

1) A payment by way of an advance or a loan,
2) Any payment on behalf of a shareholder,
3) Any payment for the individual benefit of a shareholder.

The company must possess accumulated profits at the time it makes the payment and the payment is deemed to be dividend only to the extent of such profits.

This provision applies to a shareholder being a person who has substantial interest in the company, therefore, the person should be a shareholder and he should beneficially own at least 20 per cent of the equity share capital.

A shareholder means a person in whose name the share or shares stand in the share register of the company (43 ITR 352). Therefore, if a person is merely the beneficial owner of shares, without being the registered shareholder, this provision would not apply to him (58 ITR 271).

It is also provided that any subsequent dividend paid by the company would not be taxable to the extent to which it is set by the company against any loan or other monetary benefit which has been treated as dividend.

Such a loan would be a dividend even if it is repaid before the end of the accounting year (82 ITR 485).

The loan or other payment is taxable as dividend.
in the year in which the loan is paid to the shareholder or the payment is made by the company on behalf of or for the benefit of the shareholder.

According to the Supreme Court, where members of a Hindu Undivided Family acquired shares in a private company with the funds of the family, loans were granted by the company to the Hindu Undivided Family and there were accumulated profits in the hands of the company only loans advanced to shareholders can be deemed to be divided. The HUF is not a shareholder and, therefore, the loans given to it cannot be deemed to be its income (83 ITR 170).

ACCUMULATED PROFITS

These include all profits of the company upto the date of distribution or payment for purposes of (a) (b) (d) and (e) above but for purposes of (c), accumulated profits mean profits upto the date of liquidation but not the profits made between the date of liquidation and the date of distribution to the shareholders.

For the purpose of the artificial categories of dividend which are created by this definition, accumulated profits do not include any capital gains except those which are taxable as such. Thus accumulated profits would not include any capital gains made during a period when they are not taxable under the 1922 Act.
Loans advanced to shareholders can be held to be dividend only if the company is found to be in possession of accumulated profits at the relevant dates. The phrase 'accumulated profits' does not mean the total of the assessed income arrived at after disallowing expenditure in fact incurred, such profits would be calculated by deducting all expenditure actually incurred by the company though not allowed for income tax purposes (80 ITR 463).

EXCEPTIONS

The extended definition of dividend does not however include the following:

1) A distribution on liquidation of company or on reduction of its capital is not dividend if it is made in any respect of share which has been issued for full cash consideration and which is not entitled in the event of liquidation to participate in the surplus assets, e.g. preference share.

2) A distribution on liquidation of the company or a reduction of its capital is not dividend if it is attributable to bonus shares allotted to equity shareholders after March, 1964 and before 1st April, 1965.

3) Any advance or loan made to a shareholder by a company in the ordinary course of its business is not dividend if the lending of
money is a substantial part of business.

4) A dividend paid by a company is not dividend if it is set off by the company against any sum previously paid by it and treated as dividend to the extent to which it is set off.

SALE OF BONUS SHARE

For the purpose of ascertaining the profit or loss on the sale of bonus shares, their cost is to be determined according to the following method laid down by the Supreme Court (74 ITR 62).

The proper method is to spread the cost of the old shares over the new shares (i.e., bonus shares) taken together, if they rank 'pari-passu'. This principle applies whether the assessee is an investor who makes a capital gain or is a dealer in shares who makes a business profit.

This is better explained with an example:

On 1-4-1973, X (an investor) brought 500 equity shares in a company at Rs.18/- per share. In December, 1978, he received 100 bonus shares in respect of his holding of 500 shares. In March, 1979, he sold all the bonus shares
and his 200 old shares at ₹28/- per share. Work out the amount of his profit or loss.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of his original holding of 500 shares at ₹18/- per share</td>
<td>₹9,000</td>
</tr>
<tr>
<td>Therefore, the cost of all his share is also the same</td>
<td>₹9,000</td>
</tr>
<tr>
<td>The cost of each of 600 shares is</td>
<td>₹15</td>
</tr>
<tr>
<td>The sale proceeds of 300 shares at ₹28/- per share</td>
<td>₹8,400</td>
</tr>
<tr>
<td>Less: Cost of 300 shares at ₹15/- per share</td>
<td>₹4,500</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td><strong>₹3,900</strong></td>
</tr>
</tbody>
</table>

Thus, ₹3,900/- is the capital gain, of which ₹2,600/- in respect of old shares is long term of ₹1,300/- in respect of bonus shares in short term.

DIVIDEND PAID OUT OF CAPITAL PROFITS

Where a shareholder receives a dividend out of the capital receipts of the company (such as salami and land acquisition compensation) it is not liable to tax because it is a capital receipt in his hands. The fact that the sum was distributed as 'dividend' does not change the true nature of the receipt, a receipt of what it is and not what it is called (82 ITR 460).

DIVIDEND PAID OUT OF AGRICULTURE INCOME

Under Section 235, relief was granted to shareholders
of company on that part of the dividend on their shares which was attributable to the paying company's agricultural income subject to agricultural income tax.

From 1-4-1972 this Section has been deleted because contrary to the concept underlying the present scheme of taxation of companies and their shareholders under which no part of the central income-tax borne by the company on its income is considered as having been paid on behalf of the shareholders. So far as the shareholder is concerned, the proximate source of the dividend is the investment in the shares and not the profits of the company.

DIVIDEND FROM THE POSITION OF AN AUDITOR
WITH REFERENCE TO LIMITED COMPANIES BASIC PRINCIPLES' AND GUIDELINES ENUNCIATED

The auditor has no concern in the prudence or imprudence of the financial policy of a company, except in so far as he may be required to give his advice. The auditors responsibilities are to see that the regulations of the company are complied with and that the position of affairs is made clear in the accounts submitted to the shareholders. For this purpose, therefore, he must be fully conversant with the principles and rulings governing this question and in cases that arise in practice he must investigate thoroughly the whole of the circumstances. If the auditor is of the opinion that the accounts do not
show a true and fair view of the state of the company's affairs, then if the directors refuse to amend the accounts, he must report to the shareholders, upon doing which his responsibilities are complied with.

GUIDELINES OF DECLARATION OF DIVIDENDS OUT OF DECIDED CASES FROM THE AUDITING CONCEPTS

1) The law does not attempt to define how profits available for distribution as dividend are to be arrived at. This question is left to each company to decide for itself, provided that the company's rules, regulations are complied with.

2) Share capital cannot be distributed as dividend.

3) A dividend presupposes a surplus or profit.

4) A dividend cannot be paid which has the effect of leaving the company in the position or not being able to pay its creditors.

5) A company formed to work a wasting asset need not provide out of profits for the depreciation of such asset, provided, that this is in accordance with the company's regulations.

6) Capital profits are available for distribution as dividend provided that they are realised profits and that in arriving at the amount available, all charges and losses, both capital and revenue for the period are brought into account.
7) Losses of capital need not be made good out of subsequent profits, provided that the regulations of the company do not provide to the contrary.

8) In cases of a manufacturing company, provision must be made for depreciation of plant and machinery.

9) Whole position of affairs must be made clear to the shareholders in the accounts submitted to them and it is the duty of the auditor to see that it is done.

10) It is for the shareholders, upon the recommendation of the directors, to decide what shall be distributed, and such dividends cannot be restrained provided that they are in accordance with the company's regulations, they comply with the foregoing rulings and they are upon honest accounts.

DIVIDEND POLICY OF THE SUGAR INDUSTRY IN INDIA

We have surveyed the results of the working of the Sugar units in the last 5 years beginning from 1975-76 to 1979-80. The trends are far from satisfactory. It is not possible to capitalise the industry as the industry is operating in all the three sectors of private, public and co-operative, where the objectives set by each sector are different. However, the large number of private sector
units have skipped the dividend in the last 5 years as they were unable to make profits. Of the 22 units examined by us as reported in the Madras Stock Exchange only 5 units have made profits and they have on an average declared 9 per cent dividend in the years 1975-76 to 1979-80, 5 units have declared dividend either once or twice during the above period and the rest of the units, namely 12, have skipped the dividend completely for the last five years. With the accumulated losses, it is doubtful whether they will be able to declare dividend in the next two or three years. The conditions in the Eastern Zone or in the North is worst than what we find in the South.

This goes to prove that there is something inherently wrong with the industry. Our analysis of the ratios has pin pointed the defects in the working of the Sugar units, which is a serious matter. The profitability of the industry is affected not only by taxation, but also by the Government price policy. Taxation is one of the factors affecting the industry. It could also act as an incentive for increase in investment as well as profitability of the sugar industry.