

GLOBALIZATION IS CHANGING THE ROLE OF SUGAR INDUSTRY?

Dr. Bharat V. Patil

Matoshri Bayabai Shripatrao Kadam, Kanya Mahavidyalaya,

Kadegaon, Dist-Sangli, Maharashtra (India)

drbvpan@gmail.com

Abstract

In this paper attempt is made to analyse the effects of globalisation on the sugar industry. The analysis work reveals the socio economic contribution of the sugar mills, dues to the sugarcane grower, worker's relationship, by-production management and cost analysis. Apartment from this attempt were made to find out the reasons of poor performance of the sugar mills. The contribution of the sugar mills was remarkable in the rural area. Sugar industry provides livelihood to unemployed persons. Indirectly employment opportunities provided to the many sugarcane growers. It also provides job facilities to the land less labours. Sugar industry creates jobs in transport sector, harvesting of sugarcane, spare part manufacturing industry. In the Western Maharashtra farmers are giving more priority to the cultivation of sugarcane as compared to other crops. The shareholders of the sugar mills believe on the administration of the sugar mills but the directors of sugar mills not to be worthy of faith. The sugar mills are mostly facing the problem of shortage of sugarcane and that result to non-utilisation of available resources such as plant and machinery, human resources, underutilisation of plant capacity, non-availability of working capital. Sugar industry generates more pollution. Air pollution, water pollution is increasing around the sugar mills. Health of workers and peoples living around the sugar mills are adversely affecting. Apart from these barriers the performance of the sugar industry in the national economic growth is remarkable. The rural economic environment is boosted by the sugar industry.

Key words: Globalisation, sick sugar mills and capacity utilisation

1. Introduction

Co-operative sugar mills in Maharashtra is working from last fifty years but till they are not financial sound. Sugar mills have to be required to self-reliant to face global computation. Indian sugar mills are facing the problems to achieve the operational efficiency. Now new trends are arising in the field of adoption new technology, new innovations are applying to reduce the cost of production. Price of sugar determined by taking into account of the government policy, cost of production, operational efficiency of the sugar mills, production of sugar, stock of sugar in world sugar market, profit margin of the sugar mills, cost of transportation and distribution of sugar. Every sugar industry is required to acquire operational efficiency. Cost control is the major factor which influences the cost of sugar. Most the sugar mills fail to manage the cost of production. Government policy in determination of FRP, restrictions on the stock of the sugar, unrest among the sugarcane growers regarding the demand of high FRP, increasing burden of repayment of bank loan, excess employment of human resources result to high cost of production of sugar. The trend of production of sugarcane is increasing in sugarcane growers. Farmers are more dependent on cash crops as compared to other crops. Sugarcane is a most favourable cash crop from the point of view of farmers. Once the plantation of sugarcane is made, farmers may take three harvesting chances of sugarcane. This crop is less labour intensive as compared to seasonal crops. Labours are required for irrigation of sugarcane, to remove weeds in the field, spraying of pesticides, using fertilizers and lastly the harvesting of the sugarcane. As compared to other crops farmers are planting more area under sugarcane cultivation. Sugarcane crop requires more water and its effects on the decreasing ground level of water year by year. Indian sugar industry facing many problems, first and most important is failed in financial administration of sugar mills. Huge borrowing from banks and unable to pay in time reduce

the borrowing capacity. Principal and interest amount of loan taken is outstanding for long period of time. Banks are not more financing to the sugar mills due to weak financial position of the sugar mills. Many cooperative banks are in trouble because of the non-payment of debt attitude of cooperative sugar mills. Sugar mills are not paying the appropriate sugarcane price to the farmers. The FRP amount is not paying in one instalment and in time. When harvesting season starts the sugarcane growers become more aggressive for demanding the fair value of the sugarcane. The FRP amount not determined at the appropriate time. Farmers get agitated on the roads for the poorer amount of sugarcane. The aggressive farmers stopped the vehicles loaded with sugarcane. Sometimes the tires of the vehicles are burnt. The true reason behind this aggressive attitude of the farmers is to determine the FRP as early as possible and attract the attention of the government towards burning issue of sugarcane growers. The price of sugarcane not paid after two weeks of harvesting of sugarcane. Interest on outstanding amount of sugarcane bill is also not paid. Some sugar mills paid amount of sugarcane bill to the farmers after six months. Farmers are facing the shortage of funds to run day to day operations of the farm activities. Production of sugar is a seasonal activity and runs three to five months. The production capacity is not utilised fully. The span of off season is near about eight months. In this off season the available resources are not utilised fully and it increase the burden on the earning capacity of the sugar mills. Resources are not utilised fully for the production due to shortage of sugarcane. The price of sugar is not increasing but cost of production is increasing year after year. The excess production of sugar is not absorbing in the market. Large scale production of sugar is a matter of thinking. The unrest between the cane growers and workers for expecting more from sugar mills effects on the financial position of the sugar mills. The Indian sugar industry supports 5 crore sugarcane farmers across India.

2. Methodology

For the present study Sangli district is selected. Investigation of sampling was made on the basis of two stage sampling. At the first stage, district as the primary unit and the second was co-operative sugar mill.

2.1 Objectives of the Study

- i. To study the effects of globalization on the co-operative sugar mills in the selected area.
- ii. To understand the performance of cooperative sugar mills in the selected area.
- iii. To study the reasons behind sick sugar mills in the selected area.

2.2 Hypothesis

- i. Low performance of co-operative sugar mills and to become a sick unit is dependent.
- ii. Efficiency in the administration of cooperative sugar mills and overall performance are dependent.

2.3 Significance of the Study

The performance analysis of sugar industries will be useful to the sugar mills for the efficient administration of their operational activities. It also influences the strong policy formulation to the sugar industry. The study will also be useful to of Central and State governments to solve the problems of sugar industry.

2.4 Scope of the Study

The study is only confined with performance analysis of cooperative sugar mills in the Sangli district.

2.5 Expected contribution of the study

- i. The study will enlighten the performance analysis of the cooperative sugar mills.
- ii. Helps for policy formulation to for the betterment of sick cooperative sugar unit.

3. Results and Discussion

The success of any corporate unit is measured on the basis of financial performance. Financial performance is measured through net profit earned, return on investment, return on capital employed, pay-out ratio, working capital management, liquidity position, debt to equity position, solvency position, capital gearing and optimum utilisation of the available resources. In cooperative sector optimum satisfaction of the members is more priority. Cooperative societies formed for to achieve the common objectives of the group. The common object may be financial or non-financial. Cooperatives institutions established by the people and for the people. Some cooperative instructions not formed to earn profit. In such a case profit motive is not important. The performance measurement indicators are different. Social benefit and satisfaction of the members are required to be considered. That does not mean that the cooperative unit not to run profit motive. Due to changing commutative business environment the existence of any business is the essential condition. For the development and expansion of cooperative unit it is required to earn profit. Cooperative sugar mills are facing number of problems in business activities. Availability of sufficient finance to the cooperative sugar mills is essential. Cooperative sugar mills are mostly dependent of the finance from the banks. Banks are sanctioning finance by mortgaging of sugar and fixed assets. The excess stock of sugar for a long period increases the burden on the financial position of the sugar mills. The price of sugar is not remunerative so factories are not selling of stock of sugar. The increased stock of sugar in the hands of factories creates heavy burden on the repayment of loan taken from the banks. Return on investment made by the cooperative mills is not sufficient due to heavy recruitment of the employees. Excess human power appointed due to political interest in the cooperative sugar mills. Huge salary amount increase the burden on the earning capacity of the factories. Unnecessary purchase attitude of the purchasing department cause to lock huge capital. The optimum utilisation of the available capital is to be required for the operational efficiency. In cooperative sugar factories

required precautions is not taken in the management of funds. Unnecessary expenditures are causes to increase the cost of production. Working capital management was not made properly. The amount of FRP is not paid in time to the cane growers. FRP of sugarcane for the sugarcane season 2019-20 is fixed at Rs. 275 per qtl. for a basic recovery of 10%. The decreasing price of sugar and increasing huge stock of sugar in the factory warehouse require huge amount for the payment to the cane growers. In the season of crushing heavy working capital is required. Some sugar mills fail to pay the bills of purchasing the cane. Even for the payment of bills working capital is not available. In Sangli district some mills are not started due to non-availability of working capital for day-to-day operations and the sugar mills are not started for the crushing of cane. The investment made in the plant and machinery is not optimum utilised due to operational inefficiency. Maintenance cost of machinery is heavy. Appropriate provision to the depreciation on machinery and other fixed assets are not made. The production efficiency is not achieved due to old machinery. Many sugar mills machinery are old and not compete to operational efficiency. In the global new and improved technology is applied in the sugar industry. Indian sugar industry required to modernisation in the technological point of view. Cooperative sugar mills fail to manage the liquidity position. The payment of salaries is not paid in time to the workers. Payment of bills to the creditors is outstanding due to shortage of working capital. Sufficient funds are not available for the operational activities. The burden of debt on the cooperative sugar mills are increasing. Excess funds are borrowed. Sugar mills are facing the problem of overcapitalisation. It results to inefficiency in the earning capacity of sugar mills. Debt equity ratio is not managed properly. More amounts are used for the payment of loan. Ultimately it effects on the liquidity position of cooperative sugar mills. The solvency position of sugar mills is not sound. The working capital management not sound. As compared to own equity borrowed funds are high but returns are low and it disturb the capital gearing position of the sugar mills.

The available financial resources are not optimum utilised for the betterment of the unit. Man power is not trained and efficient to achieve the production efficiency. Crushing period of sugarcane are too short and the investment in fixed assets remained vacant for a long period in the year. The inefficient management of cooperative sugar mills result to become sick unit. This discussion on the performance of the cooperative sugar mills requires to considerable thinking.

Financial Analysis of Sugar Mills in Maharashtra

Table No. 1

Particulars	Total Cane Cost	Cash Conversion Cost	Total Cost of Production
Per Quintal of Sugar	2693.74	727.00	3420.74
Per Tonne of Cane Crushed	3083.65	832.61	3916.26

Source: Financial performance of sugar mills in Maharashtra 2017-18, VSI, Annual Report.

Table 1 shows financial analysis of sugar mills in Maharashtra according to per quintal of sugar and per tonne of cane crushed in financial year 2017-18. Total cost of production per quintal of sugar is Rs. 3420.74 and per tonne of cane crushed amounted to Rs. 3916.26.

4. Conclusions and Suggestions

4.1 Conclusions

- i. Sugar industry generates more pollution. Health of workers and peoples living around the sugar mills are adversely affecting.
- ii. Price of sugar determined by taking into account different factors. External factors are more effective in the price determination of sugar.

- iii. Cost control is the major factor which influences the cost of sugar.
- iv. Most the sugar mills fail to manage the cost of production of sugar at appropriate level. Increasing cost of production effects on the earning capacity of cooperative sugar mills.
- v. Banks are not more financing to the sugar mills due to weak financial position.
- vi. The span of off season is near about eight months so available resources are not utilised fully and it increase the burden on the earning capacity of the sugar mills.
- vii. The unrest between the cane growers for expecting more from sugar mills effects on the financial position of the sugar mills.
- viii. The excess stock of sugar increases the burden on the financial position of the sugar mills.

4.2 Suggestions

- i. Sugar industry required to adopt modern machineries to reduce the cost of production.
- ii. Every sugar industry is required to improve the operational efficiency.
- iii. Attempt should be made to increase the appropriate return on investment.
- iv. The optimum utilisation of the available capital is to be required.
- v. Priority should be given for the efficient management of working capital.
- vi. Reduce the burden of debt by cooperative sugar mills.
- vii. Small and uneconomic size of cooperative mills is not economical so production capacity requires increase in the area where sugarcane is sufficient available.
- viii. Specific incentives for by-products of sugar should be given.
- ix. Rate of sugarcane not fixed by the government. It should be depend on the demand and supply of sugarcane.

References

1. Annual Report, (2017-18), “*Financial performance of sugar mills in Maharashtra*” Vasantdada Sugar Institute, Pune, pp. 80.
2. Balasubramanian M. (2012), “*Financial Performance of Sugar Industries in India*”, Global Research Analysis, Vol. - 1, Issue - 4, pp.4-6.
3. Murali P., Balakrishnan R. (2011), “*Labour Scarcity and Selective Mechanisation of Sugarcane Agriculture in Tamil Nadu, India*” Sugar Tech, 14(3), pp 223–228.
4. Nagarajan, (2013) “*Sustainable farming practices in sugarcane cultivation*”, Kisan World, A Journal of Agriculture and Rural Development, Vol 40, pp. 28-31.