

## **CHAPTER VI**

### **SUGARCANE PRICING IN PRIVATE SUGAR FACTORIES**

- 6.1 Introduction**
- 6.2 Profile Of The Ugar SUGAR  
WORKS**
- 6.3 Sugarcane PRICING**
- 6.4 CONCLUSION**

## CHAPTER VI

### THE SUGARCANE PRICING IN PRIVATE SUGAR FACTORIES

#### 6.1 INTRODUCTION

The prices of sugarcane is one of the most significant incentive to the cane growers. There are large number of factors that have been bearing on the sugarcane price in general which have received the attention of the Central as well as State Govt. to interfere in the pricing process.

In Karnataka there are 9 sugar factories established under the private sector. The performance of these factories is well and good. The total crushing capacity of these factories as in August, 1995 is 26250 TCD(36.49 percent of the State's TCD). The private sugar factories are not just to be a manufacturing and profit making sugar factories but a nucleus of alround development of the region too.

There was one sick sugar factory run under co-operative sector. It has been liquidated and privatised. This factory is not working since last three years(1993-94-95). It is expected that, during 1996-97 season, it could start the crushing operations. Recently 28 new sugar factories have been received the licenses. Among that, 18 out of 28 have been given licenses to private sector. This shows the active performance of the private sugar factories in Karnataka State.

While fixing the prices of sugarcane the private sugar factories have to consider first the statutory minimum prices fixed by the Central Govt. The final prices are determined on the percentage of recovery. The statutory minimum prices are ex-gate prices. The factory are compelled to pay the prices not less than these prices. In Karnataka some factories are paying ex-gate prices & some are paying ex-field prices. In Belgaum and Bijapur districts, harvest and transport costs of cane is being borne by the sugar factories (Ex-field) . The sugar factories in the remaining districts, the farmers have to transport & deliver the cane to the mills out of their own cost (ex-gate prices). The respective proportion of cane delivered by farmers is around 60% and ex-field cane is around 40%.

The State Govt. fixes the state advisory prices of sugarcane every year. The Govt. takes into consideration, the factors like cost of cultivation, cost of production of sugar, financial position of the sugar factories etc. These prices are linked to 8.5 sugar recovery. Generally the prices paid by the sugar factories are more than the SMP and SAP except few. Moreover the prices of sugarcane varies from factory to factory.

The sugar factories under the private sector fixes the cane price after rendering all types of costs of cane processing activities. Tthe factories used to fix the prices with the help of recovery and their financial position particularly profits and losses.

The Directors of the factory generally takes into consideration the prices paid by the sugar factories of the neighboring areas. They also considers the cost of cultivation of sugarcane. Some private factories

conduct survey of cost of cultivation & even they undertake cultivation of sugarcane of their own in factory areas (e.g. The Ugar Sugar Works) . Since the costs of cultivation have gone up the prices paid by the factories are normally more than fixed by the Govt. on regular intervals.

In Karnataka the factories having distillery projects are required to pay higher prices than those factories of without distilleries. The SAPs to the factories having distillery units usually, fixed higher rate. However, since the farmers are demanding prices equal to that of distillery owning factories, the Govt. has now decided to fix the equal prices to all sugar factories.

It would be worth while to go into the industrial profile of Ugar sugar works, which has been selected as a sample unit to exhibit the sugarcane prices in Karnataka. Ugar Sugar is one of the private enterprises running very successfully since last 38 years.

## 6.2 PROFILE OF THE UGAR SUGAR WORKS LTD., UGAR BUDRUK

The Ugar Sugar Works is an oldest sugar factory which was established by M/S Shirgaonkar brothers a firm and the managing agents of Kolhapur Sugar Mills Ltd. It was registered under Sangli State Companies Act. Its authorised capital was fixed at Rs. 1500000/- of which shares worth of Rs. 10,00,000/- were issued at the beginning.

The factory is located in the village Ugar-Khurd on the bank of the river Krishna. It is located in the Athani taluka of Belgaum District in Karnataka State. The factory is in the tropical zone climate. An average rainfall in the area is around 40 to 50 cms. The rainfall is generally spread over in four months from June to September. The maximum temperature is 40 c and minimum is 20 c.

The Ugar-Khurd has a railway station. The factory site is 1 K.M away from the railway station. The nearest junction is Miraj, which is 27 K.M. from the factory. The village, Ugar-Khurd is facilitated by the Karnataka Road Transport Corporation as well as Maharashtra State Road Transport Corporation such the transport and communication facilities are easily available.

#### 6.2.1 THE UGAR AREA AND SURROUNDING

The total geographical area of Ugar is about 10000. hectares. The soil is black, primarily medium black soil. The soil in this region is said to be rich in phosphorous, which easily leads to irrigation and nitrogenous fertilizers. The water requirement for the factory is met by the Krishna river. The factory is free from the flood water even when the river Krishna is fully in spate in rainy season. The Krishna river is near to Ugar proper.

Within the range of 22 k.m. there are two sugar factories one is at Raibag and the next is the Shri Dudhganga Krishna Sahakari Sakkare Karkhane Niyamit, Chikodi.

The major crops are sown in Kharif season only. The main crops sown are Jowar, Groundnut, Cotton, Tobacco, Wheat, Rice etc. Today all these crops are replaced by sugarcane. As it is noted, transportation facility is easily available due to the railway station which is hardly two k.m. away from the factory. The features of Ugar which attracted mainly for the establishment of sugar factory as such are:

1. The availability of sufficient supply of water and food foundation of hard black rock on the bank of the river for erection of machines.
2. Proximity of railway station.
3. The ideal location for factory buildings.
4. The market for sugar in cities like, Belgaum, Nipani, Jamakhandi and Bijapur etc.
5. Suitability of soil for growing of sugarcane in plenty.

#### 6.2.2. THE AREA OF OPERATION:

There are nearly 100 villages under the operational area of Ugar Sugar Factory. The people in this area particularly belongs to Athani taluka who are mostly dependent on agriculture. More number of farmers are marginal farmers. Most to the people are poor & landless. The contribution made by the Ugar Sugar Work in improving socio-economic and educational conditions fo the people located in this area is notable. It has made the farmers effecient for growing various types of foodgrains, sugarcane, fruits and flowers and various types of crops as such.

There are 89 villages under the area of operation of Ugar Sugar Works. These villages are settled in Athani, Chikodi, Raibag and Jamkhandi talukas of Karnataka State and Shirol, Miraj and Jath talukas of Maharashtra State. Due to this wide area, the factory has accessibility in getting sugarcane from the area. The villages which are situated on or along the banks of the river Krishna supply major portion of required sugarcane.

### 6.2.3 EXPANSION CUM MODERNISATION SCHEME:

The crushing capacity of the factory was 500 M.T. per day when it was established in 1939. The factory was crushing its sugarcane with the same capacity till 1954. In 1954 capacity was expanded from 500 TCD to 800 TCD. The second expansion from 800 TCD to 1200 TCD was completed in the year 1960. The third expansion from 1200 TCD to 2000 TCD was completed in the year 1967 to 1970. The fifth expansion from 3000 TCD to 5000 TCD is completed in the year 1987-88.

Due to the rapid increase in the sugarcane area, the factory is expanding its capacity. The expansion is essential because it is observed that, there is sudden fall in the recovery of sugar after the month of March, which make it uneconomical to continue the season longer and crush all available sugarcane in a reasonable time. However, the factory is decided to expand the capacity from 5000 to 7500, the application seeking permission is pending with the Govt. of India, it will be expanded soon after getting permission.

#### 6.2.4. QUALITY IMPROVEMENT PLAN:

Since its beginning the performance of factory is excellent. The factory has introduced new high yielding varieties such as CO-8021, CO-86037, CO-7714, CO-85004, COC-671 gives average high recovery.

#### 6.2.5. DISTILLARY:

The distillery unit was started in 1963 with an installed capacity of 5000 gallons of industrial alcohol per day. The licensed capacity of rectified spirit is 125000 liters per day. The total turnover of rectified spirit in 1994-95 was 10824418(BL), Denatured spirit was 24540(BL) and potable Alcohole was produced upto 3016426(BL) during the same year.

#### 6.2.6. IRRIGATIONAL FACILITIES:

The sugar factory has made significant contribution in providing irrigation facilities ever since its establishment. It has increased the acreage of sugarcane cultivation by way of lift irrigation schemes which has been promoted through financial assistance by the factory.

The river Krishna is the only natural source of water. To save the water and to minimise cost of lifting water, the factory has undertaken many huge length of pipelines. The factory formed the co-operative cane growing societies to bring more land under irrigation: viz

1. The Better Farming Co-operative Society Limited Jugul
2. The Better Farming Co-operative Society, Gundewad.
3. Malwad-Kusanal Co-operative Lift Irrigation Society limited, Malwad.



The irrigation facilities are spread over in phased manner since, 1953 when pumping stations were started on the bank of river Krishna. Presently there are many number of pumping stations established at various villages, with the H.P. between 45 H.P. to 250 H.P. This factory has an extra ordinary performance in providing irrigation facilities to the farmers.

#### 6.2.7. RESEARCH AND DEVELOPMENT:

The factory carries out research and development in sugarcane, process modifications in the sugar production and quality liquor production. The total expenditure on the research development during 1994-95 to the tune of <sup>RS</sup> 2337964 which is 0.12% of the total turnover.

The factory also undertakes an interest in growing other crops, which is worth mentioning. Two varieties of wheat have been released based on the work with Aestivium and Duurum wheat a dwarf variety of Emmer Wheat is also released recently. The short duration variety of Soyabean JS335 is based on the factory's research which has started yielding good results. A couple of Bengal Gram varieties have also caught the notice of the cultivators.

The research and development has brought out a 1000 page encyclopedia book on "Soil Science" specially related to sugarcane agriculture. The book contains over 40 articles on different aspects of the India's best soil scientist Dr. G.K. Zende. The book is very useful to agriculturist sugar factories, soil scientists, agronomists, Agricultural Research Stations & Agricultural colleges & Universities.

#### 6.2.8. LABOUR WELFARE ACTIVITIES:

The factory is providing many creative & helpful facilities, so far as the labour welfare is concerned. It has been providing the facilities in the field of educational Medical, social, economic & cultural in wider way.

#### 6.2.9. EDUCATIONAL:

For providing an educational facilities, the factory is running an educational trust known by Shiragaonkar Educational Trust. The trust has a primary school and Highschool. In 1995-96 the trust has started Pre-University College (Junior College). It is well equipped with library, reading room and spacious Gymkhana. A few scholarships are being given to the students every year.

#### 6.2.10. HOUSING:

The factory has provided residential facilities. It runs its own quarters, which are being given on very marginal rent. The loan has been also given to the construction of the house of the workers.

#### 6.2.11. MEDICAL FACILITIES:

For providing health services to the worker on regular way, the factory has established hospital named "Dr. Shirgaonkar Arogya Mandir". There is availability of all facilities with modern provision, which helps the workers for save heavy medical expenses.

#### 6.2.12. FINANCIAL ASSISTANCE:

The factory has established a separate Workers Credit Society. It provides foodgrains, cloth, rationed sugar, medicines and essential commodities. At the time of financial need, this society sanctions loans to the workers. It charges low interest rate to the members. This society is always trying to develop saving habits among the members.

#### 6.2.13. ENVIRONMENTAL SAFETY:

The company continues to pursue its environmental friendly approach towards industrial growth. The company enjoys an excellent safety record. Since its inception, constant improvements are made in the process and equipments to minimise discharge of effluents and emissions. The combined effluent treatment plant for distillery, sugar factory and the domestic waste is commissioned at the beginning of the season.

#### 6.2.14. CO-GENERATION:

The company has decided to set up co-generation plant for producing additional electricity from bagasse and sell the same to the grid. The company has approached Tata Consulting Engineers for detailed project report and also located suitable boilers available with Maharashtra State Electricity Board Power Station which will burn bagasse and produce steam at 62 kg/cm<sup>2</sup> suitable for power generation. The projects work has already started and it was scheduled to complete by January, 1996 it is delayed due to unavoidable circumstances.

#### 6.2.15. FUTURE PLAN OF ACTION:

The factory's work with Barley in collaboration with M/s United Breweries Ltd. Bangalore has been outstanding and has resulted in the locating half a dozen high yielding barley varieties with exceptionally high

malting qualities & this may results in setting up of maltry in near future. The closed boimethanation system i.e. RCC digesters has 8.5 BOD reduction and 60% of COD reduction with the recovery of 20000 M3 per day biogas in progress.

The factory has already set up a combined Secondary Effluent Treatment plant for sugar factory effluent, distillery effluent after anaerobic digestion in lagoons and the domestic waste of about 700 M3 per day.

The industrial profile of the Ugar Sugar Works Ltd., is well managed with required efficiency in private enterprises. The reserve surplus, the fixed assets and the rate of dividend on equity shares is shown in table No.6.1 which clearly indicates the actual factory's progress. Further it is expected that the factory management will definitely prove it's present form by setting up co-generation power unit and further expansion of crushing capacity to 6500 TCD or even more.

Table No. 6.1

## THE GROWTH PROFILE OF UGAR SUGAR WORKS

Year Ending	Reserve and surplus Rs.'000	Fixed assets Rs.'000	Rate of dividend on equity share
1979	10918	21071	9
1980	4078	23399	-
1981	4671	21362	-
1982	4495	19525	10
1983	5408	10865	12
1984	7223	20840	15
1985 !	8665	26010	15
1986	11257	28524	15
1987	13680	29450	15
1988	14983	95744	15
1990 @	31969	76330	18
1991	31362	73707	20
1992	34817	81627	20
1993	40213	83598	20
1994	42793	79740	20
1995 @	63103	157893	30 **

a) 18 months

! 15 months

\*\* Proposed Dividend

Source: Office records of the factory.

### 6.3 SUGARCANE PRICING:

The details of the sugarcane crushed, sugar produced and recovery, the cost of production per MT of cane, SAP and SMP fixed and

actual price paid and the deduction made from the cane bill is shown in table No.6.2,3,4,5 respectively.

Table No.6.2

## SUGARCANE CRUSHED SUGAR PRODUCED AND RECOVERY:

Season	Cane crushed in tonnes	Annual growth ( %)	Sugar produced in (qtls)	Annual growth (i%)	Recovery	Price paid
1981-82	405103.4985		446320		N.A	N.A
1982-83	554738.205	36.94	590155	32.22	N.A	211.80
1983-84	337184.320	39.21	384820	34.79	N.A	245
1984-85	442362.335	31.19	487440	26.66	N.A	300
1985-86	430314.905	2.72	486690	0.15	11.28	330
1986-87	566520.805	31.65	629375	29.31	11.10	330
1987-88	6825155.255	20.48	733310	16.51	10.85	335
1988-89	470120.130	31.12	514040	29.90	11.04	375
1989-90	722087.415	53.59	804220	56.45	11.25	425
1990-91	1059067.545	44.66	1172420	45.78	11.32	440
1991-92	1026114.425	-3.11	1252500	6.83	12.18	515
1993-93	726163.670	-29.23	919660	-26.57	12.74	625
1993-94	687143.805	-5.37	858280	6.67	12.58	850
1994-95	1132937.590	62.43	1394120	62.43	12.00	700
1995-96	1393789.530	23.03	1528445	9.63	N.A	N.A.

Source : Annual Reports of The Factory.

The sugarcane crushed by the factory increased from 45103=485 MTS in 1981-82 to 1393789.530 MT by 1995-96. In 1995-96 record progress is found in sugarcane crushing. The annual average quantity of

sugarcane crushed during the period 1981 to 1995-96 is 709028.228 MTS. It shows an increase of 244.05 percent during the study period. The general trend of sugarcane crushed shows wide fluctuations (See Table No. 6.2)

The sugar produced by this factory has increased from 446320 qts in 1981-82 to 1528445 qts in 1995-96. The annual average sugar produced is 813453 quintals. There are wide variations in sugar produced from year to years. It shows an increase of 242.45 percent during the study period.

The recovery of the sugarcane is constant a round 11 percent from 1985-86 to 1990-91. It increased by 12.18 percent in 1991-92 and is constant round a 12 percent upto 1994-95. The average rate of recovery from 1985-86 to 1994-95 is 11.63 percent.

Table No. 6.3 explains the cost of production of the factory for the seasons 1991-92 & 1992-93. The cane cost of the factory is Rs. 475 per M.T. i.e. 59.58 percent of the total cost of production in 1991-92. It increased to 541.76(60.141 of total) in 1992-93. The cost of cane procurement is around Rs. 5.00 per M.T. in these two years.

The cost of harvesting & transport was Rs. 58 per M.T. in 1991-92. It was 7.27 percent of the total cost of production. It increased to Rs. 62.86 in 1992-93 (6.97 percent of the total cost).

The cost of purchase tax paid is Rs. 51 in 1991-92 & Rs. 53.10 in the next year. This cost is 6.39 percent of the total cost of production in 1991-92..

The stores consumed charges is Rs. 13 in 1991-92 (i.e. 1.95 percent). The other major cost items such as power & fuel is Rs. 62.42(7.82 percent) in 1991-92 and Rs. 54.48 in 1992-93.

Table No. 6.3

## COST OF PRODUCTION PER M.T. IN Rs.

Sr.No.	Particulars	Years	
		1991-92	1992-93
1	Cane cost	475	541.76
2	Cane procurement	5.00	5.67
3	H & T	58	62.86
4	Purchase Tax	51	53.10
5	Stores Consumed	13.00	17.62
6	Guny bags	21.89	24.87
7	Repair & maintenance	24.90	30.57
8	Power & Fuel	62.42	54.48
9	Salary & wages	17.88	21.85
10	Administrative expenditure	10.53	12.76
11	Interest	40.95	50.49
12	Depreciation	16.64	24.66
13	Total cost	797.21	900.69
14	Cane price paid	515.00	625.00
15	Recovery	12.18	12.74

Source: Office Records of the factory:

The salary and wages paid by the factory Rs. 17.88 per M.T. and 21.85 in 1991-92 and 1992.93.



The interest paid by the factory is Rs. 50.49 in 1992-93 which is 5.60 percent and the depreciation of same year is 24.66 (i.e. 2.73 percent)

The total cost of the factory for the year 1991-92 & 1992-93 is Rs. 797.21 7 & 900.69 per M.T. of cane & the cane price paid is Rs. 115 and 625 per M.T. for the respective years. The recovery is 12.18 and 12.74 for the respective years.

### 6.3.17 THE ACTUAL PRICE PAID BY UGAR SUGAR WORKS:

Table No. 6.4 shows the actual price paid by the factory which over and above the SMP & SAP fixed by the Government. The prices paid by the factory are generally excess to the price fixed by the government. The prices are fixed by taking into consideration the prices paid by the sugar factories in the vicinity. The higher prices are also as a result of rising cost of cultivation.

The sugarcane price paid by the factory increased from Rs. 211.80 in 1982-83 to 850 in the year 1993-94. An average rate of sugarcane price paid during this period is Rs.415.15 per M.T. It shows an increase of 301.32 percent. The highest price paid is Rs. 850 in the year 1993-94 i.e. 301.32 percent as compared to 1982-83.

Table No. 6.4

## THE ACTUAL PRICE PAID BY THE UGAR SUGAR WORKS

Season	SAP	SMP	Recovery	Price Paid ex-field/exgate
1981-82	210	171.30	N.A	228.5/253.50
1982-83	180	172.80	N.A	211.80
1983-84	180	173.10	N.A	245
1984-85	-	184.50	N.A	300
1985-86	185	215.50	11.28	330
1986-87	258.80	228.00	11.10	330
1987-88	275	243.80	10.85	335
1988-89	285	259.20	11.04	375
1989-90	325	297.60	11.25	425
1990-91	360	308.50	11.35	440
1991-92	479.44	364.00	12.18	515
1992-93	609	463.20	12.74	625
1993-94	697	527.60	12.58	850
1994-95	894	634.00	12.30	700 so far paid

Source: Office record of the factory.

## 6.3.2 DEDUCTIONS FROM THE CANE BILL BY THE FACTORY:

In case of private sugar factories, the cane prices are not usually deducted for the purpose of factory's development. The prices are deducted in the form of saving deposits. (see the rates in table No. 6.5)

With the instruction of the state government the Ugar Sugar Works has deducted some amounts from the cane bills of the farmers for the season 1994-95. The rates are shown in the table No. 6.5. Depending upon the cane supply of the farmers the cane price deducted are from Rs. 200 to the maximum limit of Rs. 6000.

Table No. 6.5  
DEDUCTIONS(NSC/KVP) <sup>From</sup> THE CANE BILLS FOR THE SEASON  
1994-95

Sr.No	Cane quantity received (Tonnes)	NSC/KVP
1	1 to 20	Nil
2	21 to 50	200
3	51 to 70	300
4	76 to 100	500
5	101 to 125	700
6	126 to 150	800
7	151 to 175	900
8	176 to 200	1000
9	201 to 250	1300
10	251 to 300	1700
11	301 to 350	1500
12	351 to 400	2000
13	401 to 450	2200
14	451 to 500	2500

15	501 to 600	3000
16	601 to 700	3500
17	701 to 800	4000
18	801 to 900	4500
19	901 to 1000	5000
20	1001 and above	6000

Source : Office Records of the factory

#### 6.4 CONCLUSION:

The sugar factories are generally paying higher prices than that are fixed by the Government under statutory provisions so as to protect the interest of the cane growers. The reasonable prices are paid due to the rising cost of cultivation.

The private sugar factory pay the cane price on the basis of profit & loss position of the factory. The prices should be paid as per cost of cultivation. However, there are many other factors except the cost of cultivation are affecting the sugarcane prices.

The factors like price of alternative agricultural produce, price of gur & khandasary & seasonal factors have vital bearing on sugarcane price. Therefore, it is quite necessary to make convenient payment of cane price to protect the interest of cane growers. In fact, the payment of reasonable sugarcane price depends on the efficiency of the factory's administration. The Ugar Sugar Works has paid reasonable prices to the cane growers.