

## **Sugar Co-operatives in Maharashtra: Challenges Ahead**

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### **Abstract**

*In recent times, some major shifts have been happening in the sugar sector in Maharashtra which are threatening the sustainability of sugarcane cultivation. Maharashtra's sugar industry is struggling with serious problems of unreasonable sugarcane prices, scarcity of sugarcane and government policies of controlling input and output prices which are making it unviable. Therefore, the objective of this paper is to understand the challenges before the sugar co-operatives in Maharashtra. The percentage of sugarcane producer members of co-operative sugar mills is declining. The delicensing policy brought a structural transformation in the sugar sector in Maharashtra, in terms of the dominant position of co-operatives sector gradually shifted to the private sugar sector. To tackle the problem of sick co-operative sugar mills, the mill should reduce production cost.*

**Keywords:** Co-operative, Sugar, Government Policies, Maharashtra, etc.

### **Introduction**

The close relationship between sugarcane growers and sugar cooperatives has mutual benefits. The cooperative sugar mills would get benefit due to sufficient sugarcane supply from the sugarcane growers, and the sugarcane growers in turn would get good prices for sugarcane from the efficient working of sugar mills. Economic principles tell us that the economic viability of any production unit mainly depends on its efficient working and market conditions. The efficient working of sugar mills would certainly fetch more income to the sugarcane growers and affect the sustainability of sugarcane cultivation at farm level. Due to inter-linkage between the performance of sugar mills and sugarcane growers, the sugar mills primarily would survive if there is sufficient sugarcane production, and conversely, the sugarcane growers would survive if the sugar mills are healthier and working profitably. However, the cooperative sugar mills are losing their shine in spite of various forms of support from the state. The present major problem

is mounting sugarcane arrears, which is not a healthy trend for both sugar mills and sugarcane growers. Better performance of sugar mills is necessary to make sugarcane growers sustainable or else neither sugar mills nor growers can survive or sustain themselves.

### **Objectives**

To understand the challenges before the sugar co-operatives in Maharashtra.

## **DISCUSSION**

### **Issues of Sugar Co-operatives: Understanding from the Literature**

Maharashtra's sugar industry is struggling with serious problems of unreasonable sugarcane prices, scarcity of sugarcane and government policies of controlling input and output prices which are making it unviable. The pertinent question that arises at this juncture is: Are sugar mills in Maharashtra performing well? According to the Commissionerate of Sugar of Maharashtra, only 75 per cent of sugar mills operated and that too with less sugarcane crushed days due to short supply of sugarcane in recent sugar seasons. It is also interesting to note that the number of working co-operative sugar mills has declined from 99 in the 2015-16 sugar season to 88 in 2016-17. As against this, the number of working private sugar mills (78) remains the same in both the years in the state. There was a decline in the sugarcane area in the last sugar season, but the question that arises here is - why the decline only in the number of working co-operative sugar mills as compared to the number of private mills?

In recent times, some major shifts have been happening in the sugar sector in Maharashtra which are threatening the sustainability of sugarcane cultivation. The sustainability of the sugar sector is at risk at present. This is mainly due to the declining role of co-operative sugar mills on the one hand, and on the other, the increasing hold of private mills. The once prominent co-operative sugar mills' belts are now replaced and dominated by the private sector sugar mills in Maharashtra. It has happened due to the sanction of a number of new private sugar mills (Shejal, 2014). This development unfolds the decline in enthusiasm and the nervousness of the co-operative sugar mills. Despite having inherent political and economic strengths, this sector could not become attractive by showing better performance. Since a decade, the sugarcane sector in Maharashtra has been facing serious problems like use of outdated technology, policy deficiencies, entry of private mills, shortage of sugarcane, management inefficiencies, financial

crisis, corruption etc. (Khose, 2014). Moreover, the changing global environment, competition and low margin are also threatening Maharashtra's sugar sector. The Government of India (2007) clearly indicated that *"thirteen co-operative sugar mills which misutilised or underutilised the installment of loans for sugarcane development had to be brought under liquidation, loan raised for the payment of advances to the contractor of harvester and transporter were misused and, sugar conversion cost is excess over norm"*. This has happened due to ineffective control over the production cost and low recovery of sugar by sugar cooperatives. However, it is interesting to observe that the share of private mills in total dues to farmers was higher as compared to the co-operative sugar mills despite being more efficient. To tackle the problem of financial distress, all round and courageous efforts are required, especially as the sugar mills' financial position is moving towards bankruptcy (Reddy and Reddy, 2013). And also the financial performance of sugar mills can be improved by getting a better total asset turnover ratio (Praveena and Mahendran, 2014). In this connection, the foremost need is proper functioning of sugar mills which in turn can lead to long term sustainability of sugarcane growers.

The main reason for the losses in sugar industry is the control on prices and regulations on movement of sugar. Rising losses and falling net worth of sugar mills have been responsible for the sickness of sugar mills. Sickness in sugar mills has reached a stressful level. The main concern of sugar mills in India is variations in sugarcane production due to insufficient irrigation facilities (Somasundaram and Thiruvarangadas, 2016). The sugar sector has been surviving with the help of government assistance and subsidies. Therefore, the policies should be addressed towards the issues relating to control by the government and productivity of sugarcane. Increased productivity enables sugar mills to obtain sufficient sugarcane supply at competitive prices and automatically the number of working days would go up (Shroff and Kajale, 2014). However, despite the government providing assistance to the sugar sector, there has not been much improvement in the working conditions and financial health of sugar mills, especially in the co-operative sector.

### **Maharashtra's Sugar Sector: Key Concerns**

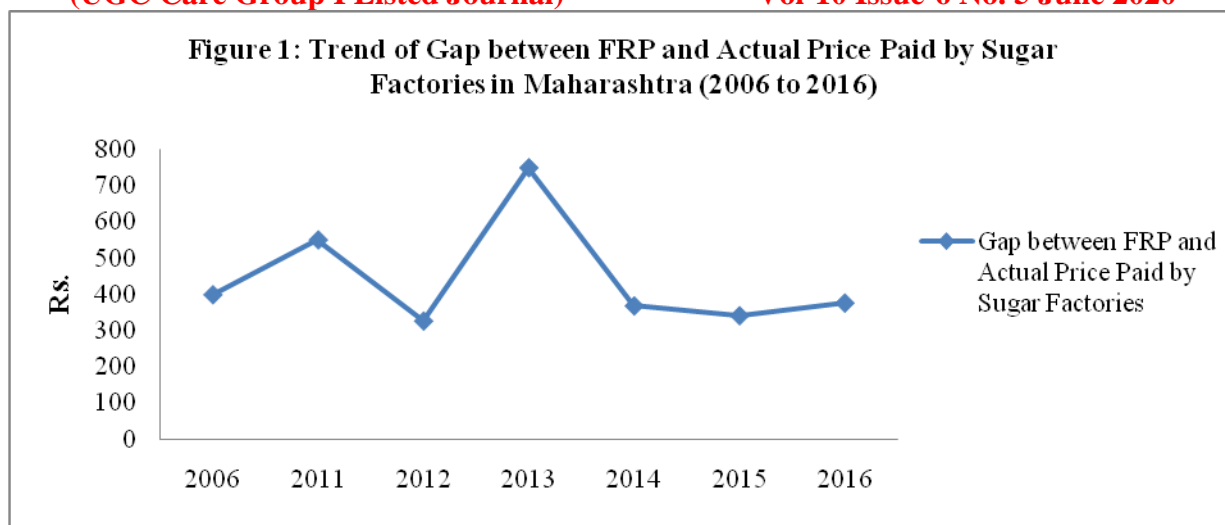
There is not much evidence of an increase in the total number of registered co-operative sugar mills in Maharashtra for a decade. Maharashtra has around 202 installed sugar mills out of

which 165 are operational (2016-17), which accounts for 81 per cent. Around 25.56 lakh sugarcane growers are directly dependent on Maharashtra's sugar mills for their livelihood. Sugar mills are closing down due to various problems. The average crushing (T.C.D) of the sugar mills in Maharashtra is 5.90 lakh tonnes per annum. An irony here is that the total sugarcane crushed has been declining, in spite of the large number of the operational mills, sugarcane suppliers, crushing capacity and sugar production.

**Table 1: Performance Indicators of Sugar Mills in Maharashtra**

Particulars	2006	2011	2012	2013	2014	2015	2016
Number of Registered Cooperative Factories	202	202	202	202	202	202	202
Number of Factories in Operation (Cooperative + Private)	163	164	170	168	157	178	177
Number of Cane Harvester Members (in Thousands)	3300	2421	2418	2634	2612	2516	2556
Total Share Capital of State Govt. (Rs. Crore)	912.0	1050.4	1075.7	1211.7	1244.3	1253.8	1284.0
Average Capacity (T.C.D. in lakh MT)	4.49	4.36	4.45	4.90	4.86	5.56	5.90
Sugarcane Crushed (lakh MT)	445.7	802.5	771.0	700.2	676.3	930.4	742.9
Average Sugarcane Price (Rs./Ton)							
a) Fair Remuneration Price (FRP)	802	1450	1700	1700	2100	2200	2300
b) Actual Price paid by Factories	1200	2000	2025	2450	2467	2540	2675
Sugar Produced (lakh MT)	51.9	90.7	89.9	79.8	77.2	105.1	84.15
Average Recovery (Per cent)	11.6	11.3	11.6	11.4	11.41	11.3	11.33
No. of Factories having :							
a) Distillery Plants	58	87	90	98	100	101	101
b) Co-generation Plants	19	44	49	65	74	75	104
Electricity Generation Capacity (MW)	257	809	831	1077	1338	1354	2025

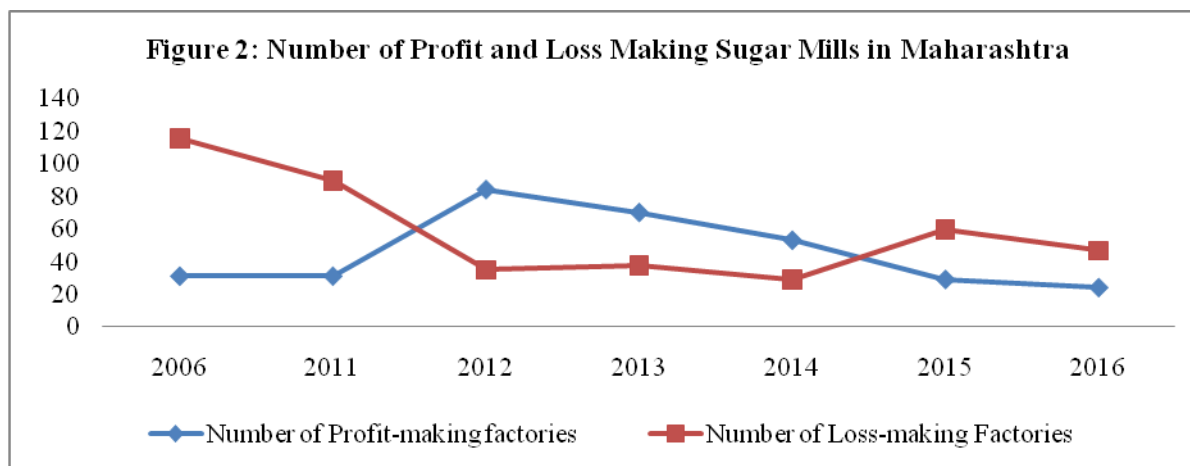
**Source:** Sugar Commissionerate, Pune (MH)



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The actual price paid has been significantly higher than the FRP fixed by the central government to support the growers in Maharashtra. The rise in sugarcane prices is visibly higher and not declining (Figure 1). The widening gap between the Fair and Remunerative Price (FRP) and State Advised Price (SAP) is a major concern. The difference between FRP and SAP was around Rs. 35 per quintal before 2011-12; however, this has gone up to Rs. 45 per quintal in 2015-16. It is also important to note that in the last 5-6 years, the cost of sugar production has exceeded the ex-mill sugar prices, leading to the unviability of sugar mills in Maharashtra. Another important problem for Maharashtra's sugar mills is that the cost of sugar production (Rs 32.36 per kg) is higher than the ex-mill sugar price (Rs. 23.13 per kg) in 2015-16. Due to the high cost of production, high input cost (high SAP), low ex-mill prices for sugar, the sugar mills are unable to make profit, hence resulting in their inability to pay prices for sugarcane growers. The sugarcane arrears are increasing (cumulative sugarcane arrears were about Rs. 3498 crore in 2015-16) year on year. The effect of FRP and actual price paid by the sugar mills has increased the raw material cost and hence the cost of sugar production for sugar mills in Maharashtra. As a result of this trend, Maharashtra is losing out in competition with other states and making sugar mills operation unaffordable and unviable considering the given sugar prices. If this situation continues, it is likely that many sugar mills will close down due to continued losses and the numbers of loss-making sugar mills are higher than the number of profit-making sugar mills in Maharashtra.

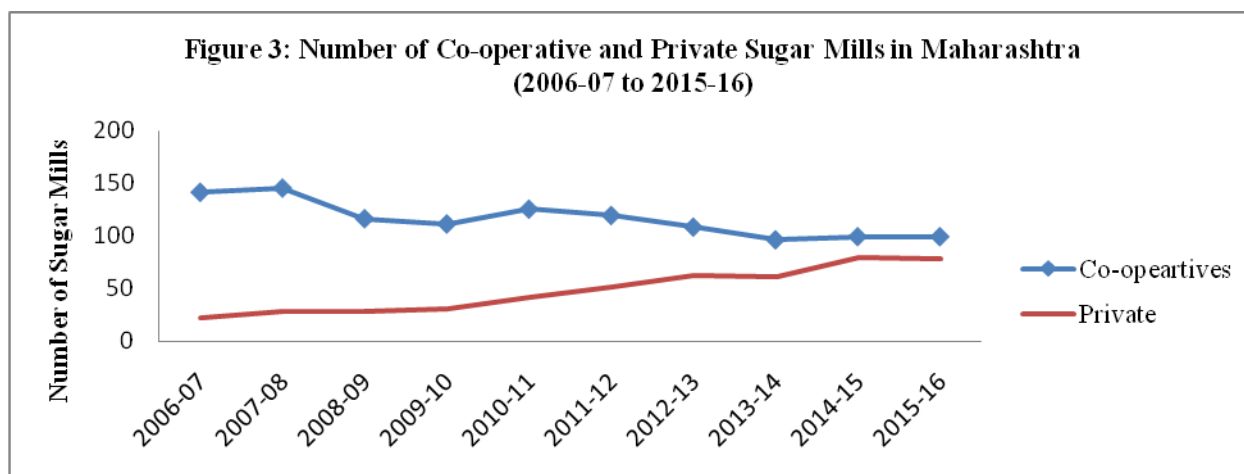
Another disquieting aspect is that despite an increase in the number of distillery, co-generation plants and electricity generation capacity by sugar mills, the number of profit-making mills have declined. A comparative picture reveals that the numbers of mills with losses are increasing. Some of the co-operative mills deliberately run at a loss from time to time as they pay high prices for their sugarcane producer members (Chithelen, 1983). The percentage of sugarcane producer members of co-operative sugar mills is declining. The overall performance of the sugar industry in Maharashtra was found satisfactory with regard to share capital, crushing capacity, number of distillery and co-generation units and total sugarcane crushed.



**Source:** Sugar Commissionate, Pune (MH).

The exited sugar mills are already well settled, having secured sugarcane supply and mostly well established infrastructure and source of income like cogeneration and distillery plants, whereas newly established sugar mills have to find out sufficient sugarcane supply before the expansion of the production unit. The delicensing policy of the government also led to competition among new private sugar mills with the existing cooperative sugar mills to attract sugarcane producers. Due to this competition, some of the sick sugar mills are forced to pay high sugarcane prices fixed by the government even though they are not in a position to bear it. As a result of this unhealthy competition, there has been an increase in the number of non-functional sugar mills from 119 in Triennium Ending (TE) 2005 to 162 in TE 2009 at all-India level (Reddy, 2011). Despite the contribution of co-operative sugar mills in rural development, the dominant ownership structure of sugar mills has undergone a change from co-operative sugar mills to private sugar mills. This is again due to liberal lending by banks to private sugar mills, especially the takeover of sick co-operative sugar mills. As a result, a new tendency has emerged for the conversion of sick co-operative sugar mills into private mills. Therefore, the growth of

private sugar mills has showed an increasing trend in contrast to the declining trend in co-operative sugar mills (Figure 3). The delicensing policy brought a structural transformation in the sugar sector in Maharashtra. However, the dominant position of co-operatives sector gradually shifted to the private sugar sector. An interesting trend to observe here is that although the installed capacity of sugarcane crushing was increased by the entry of private mills, the productivity of sugarcane is still stagnating.



Source: Sugar Commissionerate, Pune (MH).

### **Sugar Mills Vs Jaggery / Khandasari**

Jaggery (gur) and khandasari are alternative sweeteners to the sugar, which are made from the sugarcane juice. Out of total jaggery units in the country, 11 per cent are operated in Maharashtra. A comparison between jaggery and sugar on various aspects is presented in Table 2 which highlights the superiority of the latter. The sugar mills are competing with the jaggery / khandasari units, but are handicapped as the jaggery and khandasari units are totally free from government control. It is not controlled, right from procuring the sugarcane at any price and selling the final products at any price. The sugarcane utilization is around 20 per cent for jaggery / khandasari and 68 per cent for sugar production. In addition, the per capita consumption of jaggery is also less in India. It means the sugar sector has a major influence on sugarcane production and its utilisation. This indigenous sector has an impact on the sugar mills' economic viability and long term sustainability. In addition to this, the recovery rate of jaggery units is also low (5-7 per cent) as compared to sugar mills (11-12 per cent), thereby wasting sucrose due to poor extraction capacity. In other words, the optimum sugarcane juice cannot be extracted in a jaggery unit due to the use of traditional machineries. Secondly, low quality sugarcane is

supplied, before maturing, to the jaggery unit when prices are generally high for jaggery. Since the jaggery units are locally based, some sugarcane growers who are in need of money harvest the sugarcane and supply it to jaggery units even before maturity. Hence, it results in a low recovery rate. Moreover, there is a specified harvesting time table when sugarcane is taken from the growers. This is not so in jaggery. Though the per capita consumption of sugar has increased as compared to jaggery, the jaggery / khandsari units are out of the purview of FRP / SAP for sugarcane. Despite the increase in sugar consumption and production levels, the sugar mills are running under losses.

**Table 2: Sugar Vs Jaggery /Khandsari**

Parameter	Jaggery / Khandsari	Sugar
<b>Sweetener</b>	Alternative Sweetener to Sugar	Alternative Sweetener to Jaggery
<b>Sugarcane Utilisation Pattern (%)#*</b>	20.21	67.87
<b>Total Consumption (Lakh tons)*</b>	40	248.5
<b>Per capita consumption (kgs/year)*</b>	3.1	19.6
<b>Sugarcane Harvesting</b>	No fixed harvesting time table	Harvesting timetable fixed by the sugar mills
<b>Control</b>	Decontrolled	Controlled by the government
<b>Man Power Requirement</b>	Semi-skilled	Skilled
<b>Comparative Cost of Production</b>	Low	High
<b>Raw Materials</b>	Raw material procurement not controlled with regard to quantity and price	Raw material procurement controlled with regard to quantity and price
<b>Recovery (%)</b>	5-7	9-12
<b>Prices</b>	Depends on raw material cost	Fixed by the government
<b>Packing Cost</b>	Low	High due to compulsory jute packaging to some extent

**Note:** 1. The figures are taken for the year 2015-16.

2. # Total 11.62 per cent sugarcane utilizing for seed and fodder purpose.

**Source:** Author's Compilation

## **Conclusion**

The cooperative sugar processing sector in Maharashtra is undergoing a great stress due to sugar pricing and the behaviour of markets and trade. It has altogether threatening the sustainability of the processing sector at the current level and understanding this requires an in depth look at the nuances in the operations of strengths and weaknesses. Sustainability of the sugar sector in Maharashtra is threatened by the declining number of co-operative sugar mills being threatened continuously. The private sugar mills are focused on profit-making, whereas the co-operative sugar mills have to stick to their members and follow the regulations meticulously ensuring the development of sugarcane growers with profit maximisation. The growth and



development of the cooperative sugar industry has sustainability relevance. If Maharashtra's sugar cooperative is to be sustained, then there is a need to adopt feasible market strategies. To tackle the problem of sick co-operative sugar mills, the mill should reduce production cost. Finally, the "Tariff Commission" was collected data on various elements of sugar production cost lastly in 2009 to estimate the sugar production cost. Therefore, it is a need to collect data from sugar mills on sugar production cost regularly to estimate proper prices to be paid for sugarcane.

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