



# A study on Managing the Cost in Sugar Industry in India

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**Abstract:** *The main aim of any business firm is to enhance the profit in the current business scenario. To accomplish this purpose the firm has to undertake several activities but today every firm is moving towards cost cutting. The profitability of the firm can be increased by two ways one is by increasing the sales volume and another is by reducing the cost of production. Nowadays cost plays a significant role in any industry and has massive impact over the industry. But cost cutting should not be compromised with the quality and quantity. The main purpose of this research article is deriving better method for cost reduction in sugar industry. Besides this to study the present scenario of sugar industry across the country and review the current positive is one of the aims of this research article.*

**Keywords:** *Business, Cost, Sugar, Industry.*

## I. INTRODUCTION

Sugar is one of the oldest commodities in the world and traces its origin in 4th century AD in India and China. In those days sugar was manufactured only from sugarcane. But both countries lost their initiatives to the European, American and Oceanic Countries, as the 18th Century witnessed the development of new technology to manufacture sugar from sugar beet. However, India is presently dominant player in the global sugar industry along with Brazil in terms of production. Given the growing sugar production and the structural changes witnessed in Indian sugar industry, India is all set continue its domination at the global level.

The Indian domestic sugar market is one of the largest markets in the world, in volume terms. India is also the second largest sugar producing geography. India remains a key growth driver for world sugar, growing above the Asian and world consumption growth average. Globally, in most of the key geographies like Brazil and Thailand, regulations have a significant influence on the sugar sector. Perishable nature of cane, small farm landholdings and the need to influence domestic prices; all have been the drivers for regulations. In India, too, sugar is highly regulated. Since 1993, the regulatory environment has considerably eased, but sugar still continues to be an essential commodity under the Essential Commodity Act. There are regulations across the entire value chain land demarcation, sugarcane price, sugarcane procurement, sugar production and sale of sugar by mills in domestic and international markets.

Cost reduction is the vital part of the sugar industry so it's real and permanent to reduce unit cost in sugar industry is most important. It is one of the challenges for the sugar industry to survive in this competitive market situation. The firm has to achieve economies of scale for its survival and has to adopt continuous reduction cost approach to reduce it at possible low level. This will be helpful to the firms in their long run survival and growth of business. Diversification of activities is the characteristics feature the co-operative movement in the country performance of the cooperative have been rendered possible by peoples own efforts coupled with government policy of encouragement and support to the movement. State Govt and the central Govt placing the co-operative organization on a sound footing has been a major contributing factor of co-operative sugar factory is one of the life blood sector industries of India. The sugar industry provides life to 35 million sugar cane farmers and it is bread earning to 5 lakh peoples .its contribution to central Govt is Rs 1000 crores and state Govt is 600 crores by way of Tax and Cess.

## II. LITERATURE REVIEW

According to *P.N. Devekar in (1951)* “the sugar industry in Bombay division. In his study he explained development of sugar industries and their problems. And also explained economics of sugarcane and sugar with reference to the irrigation, transport, manufacturing etc. The study points out the necessity and importance of sugar co-operative in the Indian economy.

According to *Paul Pigors* Collected original contributions of Douglas M C Gregor Rensis Likert and other eminent American writers on management and personal administration they have touched the aspects of organization planning and management development the need for development of cost management practice with the emphasis on cost control and cost reduction.

According to *R.M. Kharche* the co-operative sugar factories in Maharashtra in his doctoral work in 1987 and it was published in the year January 1990.it deals with method of licensing, financial structure, the supply of cane, cost of production, or development and policy of management.



As per the study *RBI 1980* studied the problems of sickness in sugar industry erosion of profit of sugar mills is mainly due to mechanical obsolescence has been concluded by various committee constituted after 1980 recommendation of these committee Modernization and rehabilitation are considered as the way to reconstruct the sugar industry.

### III. OBJECTIVES OF THE STUDY

The main purpose of the study is to review the sugar factory and production, marketing, finance, technology and other aspects of sugar industry by the number of researchers as can be seen in review of literature on sugar industry. However, it is important to draw attention towards the internal structure and cost management policies and practices followed by sugar industry. The study is would be helpful and gives required suggestion or recommendations for improvement in existing cost management structure. The other major objectives of the study are as under;

1. To evaluate the working efficiency of sugar mills.
2. To provide required suggestions and recommendations to reduce cost per unit of sugar production in the industry.
3. To identify the factors responsible for high cost of production in the industry.

### IV. RESEARCH METHODOLOGY AND DATA COLLECTION

This research article is based on secondary data. Therefore, these data were obtained from sugar fed journal, published profit and loss a/c and other relevant documents maintained by the sugar producing firms. It is an experimental research researcher has evaluated and analyse the cost of production, components of cost of production and the recovery of sugar industry. The researcher has used Percentage Method to analyze the cost elements and break even-recovery of sugar industry.

### V. EFFICIENCY OF SUGAR INDUSTRY

India is one of the largest sugar producers across the world. Indian sugar industry accounts for 2.5 percent of the country industrial production and co-operative sector of the sugar industry made rapid growth till recently accounting for not only nearly 50 percent of the national production of sugar in the country.

Table-1

#### Status of Indian Sugar Industry

Total sugar factories	529
Crushing Capacity (million TCD)	24.847
Sugarcane Crushed (million tons)	256.975
Sugar Produced (Metric million tons)	26.343
Recovery % Cane	10.25
Yield of sugarcane (tons per hectare)	70.3
CARG	8-12%

Source: [http://www.vsisugar.com/india/statistics/world\\_indiasugar.htm](http://www.vsisugar.com/india/statistics/world_indiasugar.htm)

Table-2

#### Sugar Production in India

Year	Production in Metric Million Tonnes (mmt)
1997-98	12.86
1998-99	15.54
1999-00	18.20
2000-01	18.51
2001-02	18.53
2002-03	20.14
2003-04	13.99
2004-05	12.69



2005-06	19.26
2007-08	28.30
2008-09	14.48
2009-10	18.90
2010-11	24.20
2011-12	26.34

Table-2 reflects the fact of sugar production in India in metric million tonnes. It clearly shows that there is increasing in sugar production upto 20(mmt) 1997-98 to 2002-2003, decreased up to 13(mmt) in the year 2004-05 ,in the year 2006-07 it reached highest i.e 28 (mmt) and lastly in the year 2008-09,2009-10, 2010-11 and 2011-12 the sugar produced 14,19, 24 and 26 (mmt) in respective year.

## VI. FACTORS INVOLVED IN HIGH COST OF PRODUCTION IN THE INDUSTRY

Sugar industry in India is facing lot of challenges issues and problems in present scenario. Profitability is continuously reducing for the millers and global level competition is becoming an impractical expectation. Some of the issues and problems faced by the sugar industry in India are as under:

- ❖ In India the Government regulates sugarcane pricing, decide quota, sales and export/import. Moreover, sugar is classified as an essential commodity in the Essential commodities Act. 1955.
- ❖ Political consideration in government sugar policy. For example: Fixation of SAP by the state Govt. Poor quality of sugarcane in terms of Sucrose Content.
- ❖ Sugar is an item of mass consumption and plays important role in daily life we require more than 300 lakha tonnes of sugar for our internal consumption. The Govt of India purchase 40 percent of total production of sugar as levy sugar from the factories at predetermined price for public distribution and factories are allowed to sell remaining 60 percent in the open market normal levy price is always lower than open market price it is very clear that levy price is less than cost of production and definately it will increase the cost of sugar mills, as a result loss will increase.
- ❖ Average crushing capacity is very low at just 24.84 Million TCD.
- ❖ Cost of production is high in the industry because of unusually high price paid by millers to growers and poor quality of sugarcane. The actual price paid by millers to sugarcane growers is way above the minimum price set by Central Govt. Normally; they pay the price set up by the respective State Govt. (SAP which is higher than SMP). At times of cane shortage, the actual prices can be higher than also.
- ❖ Fluctuations in sugarcane production due to inadequate irrigation facilities, lower sugarcane yield, and frequent droughts in tropical and sub-tropical areas where sugarcane is grown on a large scale.
- ❖ Low yield, low rate of recovery & frequent drought in tropical and sub-tropical regions. Small size sugar plants are being set up across the country. Most of sugar units in India utilize production capacity below fifty percent. Due to low capacity utilization and inadequacy of raw material led to closer of many sugar factories in India.

## VII. SUGGESTIONS AND RECOMMENDATIONS

- ❖ Having a number of small firms in the industry, enhance the capacity of the firms and also industry. It will help in creating a level playing field for Indian Companies in the world market as well as increase their ability to absorb losses.
- ❖ Approximately, 100 tonnes of cane crushed gives only 10 tonnes of sugar & the rest is by-products which consist of Molasses, Baggase and Press Mud Utilization of these by-products can be utilized in effective manner which will enhance the profitability of the sugar firms.
- ❖ To improve the production efficiency, traditional method of production should be replaced with new modern technology.
- ❖ Production of ethanol will increase profitability as demand will stay due to the government's rule of ethanol blending ethanol with petrol.
- ❖ These sugar mills cannot have economies of scale so they have to incur high production costs. Indian sugar industry is characterized by high production costs. Hence the production capacity should be increased to gain economies of scale in the industry.
- ❖ Liberlization from strict govt. reguations.



- ❖ Special attention is needed to be given on water resource management. All the area under sugar cultivation should be brought under drip irrigation to conserve water as well as fertilizers.
- ❖ Providing adequate and regular power supply to sugarcane growers and sugar factories would increase production and productivity.
- ❖ Supply of clean cane in time and cultivation of quality sugarcane.
- ❖ Reduction of down time, administrative cost, and financial charges.
- ❖ Efficient reporting system. And Preparation of financial budgets and implementation of the same.
- ❖ Install Co-Generation Plant and Elimination of waste / scrap.
- ❖ Optimum inventory maintenance and effective funds management.
- ❖ Cost reduction programme should not be considered as a onetime action or programme. It is not confined to one department. It should be carried out in all departments continuously by all employees of the mills.
- ❖ All other factors should also be looked into. Cost reduction needs to be monitored continuously by the management for survival.
- ❖ Carrying out repairs of plant and machinery well in time to avoid loss of production.
- ❖ Sale of sugar, and by-products like molasses, bagasse in such a manner that it involves minimum expenditure which will result in maximization of profit.
- ❖ Making the job available with right personnel and accomplish the same within predetermined time limit.

### VIII. CONCLUSION

In this research paper it is concluded that performance of sugar mills in India is poor compare to international sugar industry. Only factor responsible behind it is poor management of cost of production. Cost of production is very high and sugar production is proportionately low form the crushed sugarcane. In order to keep control over the increased cost, the firm should use new techniques like activity based costing also use latest technology and machines to improve sugar recovery and production. There is a need of deregulation in the industry and also need to keep it free from political factors. The sugar industry should pay attention to quality of sugar and should also meet international standards to get global advantages.

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