Profitability of Indian sugar co-operatives - a case study of Maharashtra State

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Abstract  Under the Indian Industrial Policy 1956 preferential treatment was given to co-operative sugar mills and over the last 50 years the co-operative sugar sector has increased significantly. This has affected their profitability and operational efficiency, and they have to compete in the domestic as well as in the international market. The Indian Government accepted a partial decontrol policy from the 2013 sugar season that has made a great impact on the financial position of the sugar mills both in co-operative as well as in private sector. The profitability of four co-operative sugar mills in Maharashtra state prior to 2013 was analysed and a strategy suggested that they should adopt so as to overcome these financial problems. All the four sugar Mills are operationally efficient and are maintaining good financial positions. Under current conditions, these sugar mills are able to compete at the national as well as the international level because of the good practices they follow.

Key words  Profitability, net sales, administrative overheads, interest and bank charges, non-operating profit

INTRODUCTION

India is the second largest sugar producer after Brazil and the largest consumer of sugar in the world. The industry contributes around 20% of the global sugar production from sugarcane. Indian sugar co-operatives contribute on an average 41% of the total sugar produced in India, with the Maharashtra sugar co-operatives contributing more than 60% of this.

Under the Industrial Policy 1956 preferential treatment was given to co-operative sugar mills and over the last 50 years the co-operative sugar sector has increased significantly. This has affected their profitability and operational efficiency, and they have to compete in the domestic as well as in the international market. The Indian Government accepted a partial decontrol policy from the 2013 sugar season that has made a great impact on the financial position of the sugar mills both in co-operative as well as in private sector. Additionally, during the last five years sugar prices have declined in the international market. Naturally this has impacted on the financial position of the sugar sector in the India.

In such a critical situation most of the Indian co-operative sugar mills have recorded heavy losses as they are unable to compete in the national and international markets. Here we analyse the profitability of four co-operative sugar mills in Maharashtra state prior to 2013 and suggest a strategy that they should adopt so as to overcome these financial problems.

METHODS

In order to assess the profitability of co-operative sugar mills of Maharashtra state we selected four co-operative sugar mills from the sugar bowl of Maharashtra that were apparently financially successful:

- Shree Datta Shetakari S. S. K. Ltd, Shirol, District Kolhapur - Datta Shirol.

All four mills are 45+ years old and have different production characteristics (Table 1).
Table 1. Characteristics of each of the four mills studied.

<table>
<thead>
<tr>
<th>Factory</th>
<th>Crushing capacity (t/day)</th>
<th>Average crushing per year (Mt)</th>
<th>Average sugar recovery (%)</th>
<th>Average cost of production including cost of raw materials INR/t of sugar</th>
<th>Average price paid for cane (INR/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rajarambapu</td>
<td>6500</td>
<td>1.38</td>
<td>12.73</td>
<td>28830 (USD430.0)</td>
<td>2409 (USD35.95)</td>
</tr>
<tr>
<td>Hutatma</td>
<td>3500</td>
<td>0.63</td>
<td>13.20</td>
<td>26630 (USD397.4)</td>
<td>2364 (USD35.28)</td>
</tr>
<tr>
<td>Warna</td>
<td>7500</td>
<td>1.27</td>
<td>12.23</td>
<td>29790 (USD444.6)</td>
<td>2229 (USD33.26)</td>
</tr>
<tr>
<td>Datta Shirol</td>
<td>7000</td>
<td>1.18</td>
<td>12.23</td>
<td>26080 (USD389.2)</td>
<td>2250 (USD33.58)</td>
</tr>
</tbody>
</table>

We considered the average performance figures for each mill over the 5 years from 2008-2009 to 2012-13 using data published in each of the mill’s annual reports. A single tool, i.e. a 'common size statement' where net sales are taken equal to 100, was used to compare the profitability of these mills and the efficiency of management. There was no cross-checking through alternative tools. This percentage also indicated items responsible for expenditure causing an increase or decrease in the percentage profit and attempted to relate cause and effect. Data used for calculations were:

- % Share of Gross Profit /Loss to Net Sales.
- % Share of Administrative Overheads to Net Sales.
- % Share of Interest and Bank Charges to Net Sales.
- % Share of Non-Operating Profit / Loss to Net Sales.
- % Share of Net Profit / Loss Transferred from Ancillary Products to Net Sales.
- % Share of Net Profit / Loss Transferred to General Balance Sheet to Net Sales.

RESULTS AND DISCUSSION

Share of Gross Profit to Net Sales (Table 2)

- Hutama, Warana and Rajarambapu registered gross profit to net sales and both Hutama and Warana showed an increasing trend.
- Rajarambapu showed a fluctuating trend in their gross margin.
- Datta Shirol showed an average gross loss, because in two years of the study the cost of goods sold did not cover the cost of purchase of raw sugar.

<table>
<thead>
<tr>
<th>Year</th>
<th>Rajarambapu</th>
<th>Hutatma</th>
<th>Warana</th>
<th>Datta Shirol</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2.95</td>
<td>6.03</td>
<td>1.54</td>
<td>-5.65</td>
</tr>
<tr>
<td>2010</td>
<td>7.80</td>
<td>5.63</td>
<td>3.04</td>
<td>1.14</td>
</tr>
<tr>
<td>2011</td>
<td>3.44</td>
<td>4.31</td>
<td>6.01</td>
<td>0.39</td>
</tr>
<tr>
<td>2012</td>
<td>2.10</td>
<td>6.95</td>
<td>8.25</td>
<td>-2.58</td>
</tr>
<tr>
<td>2013</td>
<td>3.89</td>
<td>9.74</td>
<td>10.43</td>
<td>1.66</td>
</tr>
<tr>
<td>Average</td>
<td>4.04</td>
<td>6.51</td>
<td>5.85</td>
<td>-1.02</td>
</tr>
</tbody>
</table>

Share of Administrative Overheads to Net Sales (Fig. 1)

- The Percentage of administrative overheads to net sales of all the four sugar mills were within the Standard Norms of Financial Management (SNFM), i.e. 2-3% of net sales.
- This shows that human resources are managed efficiently.
Share of Interest and Bank Charges to Net Sales (Table 3)

- Datta Shirol showed lowest burden of interest and bank charges, due to raising of additional share capital time to time.
- Rajarambapu had its interest burden within the Standard Norms of Financial Management (SNFM).
- Hutama and Warana had their interest and bank charges 2-3% higher than SNFM - both should raise the additional share capital so as to reduce the burden of interest and bank charges.

Table 3. Share of Interest and Bank Charges to Net Sales (%).

<table>
<thead>
<tr>
<th>Year</th>
<th>Rajarambapu</th>
<th>Hutatma</th>
<th>Warana</th>
<th>Datta Shirol</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3.09</td>
<td>5.73</td>
<td>4.06</td>
<td>2.05</td>
<td>3.78</td>
</tr>
<tr>
<td>2010</td>
<td>1.30</td>
<td>2.59</td>
<td>3.96</td>
<td>1.40</td>
<td>2.32</td>
</tr>
<tr>
<td>2011</td>
<td>2.08</td>
<td>3.29</td>
<td>4.16</td>
<td>1.59</td>
<td>2.78</td>
</tr>
<tr>
<td>2012</td>
<td>2.96</td>
<td>4.29</td>
<td>6.79</td>
<td>1.21</td>
<td>3.81</td>
</tr>
<tr>
<td>2013</td>
<td>4.97</td>
<td>7.35</td>
<td>11.02</td>
<td>1.01</td>
<td>6.08</td>
</tr>
<tr>
<td>Average</td>
<td>2.88</td>
<td>4.65</td>
<td>5.99</td>
<td>1.49</td>
<td>3.75</td>
</tr>
</tbody>
</table>

Share of Non-Operating Profit/Loss to Net Sales (Table 4)

- Gross profit – Administration overheads – Non-operating overheads (interest and bank charges) = Profit or Loss
- All the four sugar mills showed losses throughout the study period with the exception of 2010.
- During 2010 Rajarambapu, Hutatma and Warana registered a non-operating profit balance, i.e. 4.35%, 1.54% and 2.68%, respectively.
- Datta Shirol displayed a negative balance of 1.74% to net sales.
- This indicates that no sugar mill is sustainable only on sugar production – they should diversify into byproducts.
% Share of Net Profit/Loss Transferred From Ancillary Units to Net Sales (Fig. 2)

- The mills that have diversified into various byproducts are generating higher profit margins.
- The net profit subsequently transferred to the General Profit and Loss account is Datta Shirol 5.68%, Warana 3.59%, Rajaram 3.25% & Hutama 1.31% to net sales.

![Graph showing percentage share of net profit/loss transferred from ancillary units to net sales](image)

*Fig. 2.* % Share of Net Profit/Loss Transferred From Ancillary Units to Net Sales.

Share of Net Profit / Loss Balances Transferred to General Balance Sheet to Net Sales (Table 5)

All the four Sugar mills have shown:

- Operating losses after deducing the administrative overheads and interest and bank charges.
- Net profit balances to net sales, transferred to the General Balance Sheet, i.e. Warana 1.96%, Hutatma 1.14%, Rajaram 1.02% and Datta Shirol 0.56%.

![Table 5 showing percentage share of net profit/loss balances transferred to general balance sheet to net sales](image)

*Table 5.* Share of Net Profit / Loss Balances Transferred to General Balance Sheet to Net Sales (%).
CONCLUSION

All the four sugar Mills are operationally efficient and are maintaining good financial positions. Under current conditions, these sugar mills are able to compete at the national as well as the international level because of the good practices they follow.

ACKNOWLEDGEMENTS

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La rentabilité des coopératives sucrières en Inde - une étude de cas de l'état de Maharashtra

Résumé. Avec la politique industrielle indienne de 1956, un traitement préférentiel a été accordé aux sucreries coopératives et le secteur coopératif sucrier a considérablement progressé au cours des 50 dernières années. Ceci a affecté leur rentabilité et leur efficience opérationnelle, et ils sont en concurrence tant qu’au niveau du marché local et international. Le gouvernement indien a accepté une politique de déréglementation partielle de la campagne sucrière de 2013; ceci a impacté grandement sur la situation financière des sucreries coopératives et privées. La rentabilité des quatre sucreries coopératives dans l’État du Maharashtra avant 2013 a été analysée et une stratégie dégagée dans le but de surmonter les problèmes financiers. Les quatre sucreries sont efficientes sur le plan opérationnel et maintiennent une bonne situation financière. En raison des bonnes pratiques adoptées, ces sucreries sont actuellement en mesure de rivaliser tant au niveau national qu’international.

Mots-clés: Rentabilité, chiffre d’affaires, couts administratifs, intérêts et frais bancaires, bénéfice hors exploitation

Rentabilidad en las cooperativas azucareras de la India: un estudio de caso en el Estado de Maharashtra

Resumen. Bajo la política industrial de la India de 1956 un trato preferencial era otorgado a las cooperativas en ingenios azucareros y durante los últimos 50 años las cooperativas del sector azucarero han aumentado significativamente. Lo anterior ha afectado su rentabilidad y eficiencia operativa, y ellos tienen que competir en los mercados tanto doméstico como internacional. El gobierno de India acepto una política de eliminacion parcial del control a partir de la zafra 2013 que creo un gran impacto en la posicion financiera de los ingenios tanto cooperativas como del sector privado. La rentabilidad de cuatro ingenios cooperativa en el Estado de Maharashtra antes de 2013 fue analizado y la estrategia sugerio que ellos deberian de adoptarlo para sobreponerse a los problemas financieros. Todos los cuatro ingenios son operativamente eficientes y mantienen posiciones financieras buenas. Bajo las condiciones actuales, estos ingenios son capaces de competir a nivel nacional asi como internacional porque ellos tienen buenas practicas empresariales.

Palabras clave: Rentabilidad, ventas netas, gastos administrativos, intereses y cargos bancarios, utilidad no operativa