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# IMPORTANCE OF RESERVE BANK OF INDIA REGARDING IN SUGAR INDUSTRY

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**ABSTRACT:**
Sugar industry of a country is the backbone of its economic growth. Form the point of view of the socio-economic development of the country, sugar industry is significant enough in terms of investment, employment etc. the sugar industry has certain peculiar characteristics that force wider deviations form the established theory of financial management. The management of working capital becomes less efficient in the sugar industry due to holding huge inventories, lower turnover, loans and advances and their slow recovery, over dependence on bank finances and holding large idle cash balances, etc. these problems have always highlighted the need for a comprehensive study in the field of working capital management. A special cell has been created in the RBI to function as a clearing house for information and also to act as a coordinating agency between the government, banks, financial institutions and other agencies. Guidelines have been issued to banks for the revival of sick units and strengthening the organisational set up in banks. Stress is also being laid on monitoring and conselling assistance to sick units and to consider grant of need-based credit facilities on concessional terms.

**KEY WORDS*:*** Sugar Industry, RBI, financial management

## INTRODUCTION TO SUGAR INDUSTRY

The sugar industry is the second largest industry in India, next to cotton textiles, playing an important role in the national economy. The sugar industry has a great significance which can't be devalued in its relation to agricultural and industrial economy of the rural region of India. Sugar industry is an agro based industry. It is an industry which affects agriculture fundamentally. Therefore, the expansion of sugar industry in India is an indispensable factor for the uplift of socio economic life in India. Located in rural areas, sugar industry has provided the most effective instrument for carrying progressive trends in to the country side. The most outstanding feature of the industry is the vital link between the factory and cultivators whose interest and well being are inter-dependent. No other agro-based industry can compete with it in effecting great impact and close contact between the agriculturists and factory owners.

## HISTORY OF SUGAR IN INDIA

Sugar has been known to India for about 2000 years and there is ample evidence to show that India is the original home of sugar cane as also of sugar manufacture. Sugar has been mentioned in the epics as one of the five "Amritas" i.e. celestial sweets. Nothing tastes so sweet as sugar.

## SUGAR PRODUCTION IN ANCIENT PERIOD IN INDIA:

Sugarcane has been one of the major crops of India since times immemorial. *Iksu*, the term of sugarcane, is found in the Atharvaveda, Vajasaneyii, Maitrayani and Taittriya, Samhitas and the subsequent Sutras. The Aryans knew the plant from a very early time and the fact that sugarcane is indigenous to India is beyond dispute. The word *Iksu* has no parallel in any other Indo-Aryan language, which suggests that the Indo

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Aryans only came to know about the plant only after entering India. This is, supported by the fact that little evidence of sugar or sugarcane is found in any archaeological site of the prehistoric or early historical period; however, this negative evidence is no proof that it was unknown. The cultivation of sugarcane caught the attention of the Greek visitors to India so something singular and strange. They speak of it as 'reeds that make honey without the agency of bees'. This phenomenon of sweet juice produced from reeds was ingeniously explained by Megasthenes. According to him, the sweet juice was due to the water which the cane absorbed from the soil being so warmed by the sun's heat that the plant was virtually cooked as it grew.

**SUGAR PRODUCTION IN MEDIEVAL PERIOD** *:*

In 1213 AD, the Chinese ambassador, Ch-u-ts-ai reported to Jenghiz Khan "In this century sugarcane is cultivated. The people make wine and sugar from juice." In 1498, Vasco de Gama also saw large quantities of sugar at Calicut Ludovico di Verthema, an Italian who traveled in the East in 1503-08, on seeing an immense quantity of sugar at Zibit in Arabia, a hundred miles north of Perim and a Bathacala, a little south of Goa on the Malabar Coasts recorded "a great abudance of sugar especially candied according to our way." In Aln-i-Akbari written by Abul Fazal in 1590, cane is stated to have been of various kinds, but mainly of two sorts, one called *paunda*, one species is so tender and so soft, so full of juice that a sparrow by specking could make the juice flow, the other species is hard. The former was grown for eating and the latter for sugar making-brown sugar candy, common sugar, white candy, and refined sugar useful for the preparation of all kinds of sweetmeats. It is evident that cultivation of sugarcane was prevalent all over India.

**SUGAR PRODUCTION AFTER INDEPENDENCE*:***

ring the period 1942-43 till 1950-51, the sugar industry of India had to pass through a difficult time for various reasons when the output fluctuated erratically mainly on account of instability of sugarcane supplies caused by the government’s preference to food crops during the war years. In view of the critical situation and crisis phase of sugar industry, sugar was decontrolled in December 1947 and as a result of it price of sugar rose rapidly. This situation led to black-marketing and hoarding and consequently the consumers were badly affected. The circumstances completed the government to re-control sugar in 1949. Really, the sugar industry received its due share of consideration in the five year plans of the government of India. The progress in sugarcane growth, sugar and number of factories can be judged from table 1.1 and 1.2.

**Table 1.1**

**Sugarcane area, Production of sugarcane, recovery and number of factories in India**

| Year | Area under sugarcane ('000 hectare) | Production of sugarcane ('000 Tones) | Recovery of Sugar (% cane) | No. of Factories in operation |
|---|---|---|---|---|
| 1990-91 | 1176 | 36,354 | 8.96 | 29 |
| 2000-01 | 1617 | 51978 | 9.70 | 148 |
| 2001-02 | 1707 | 54823 | 9.99 | 139 |
| 2002-03 | 2415 | 110001 | 9.74 | 174 |
| 2003-04 | 2615 | 126368 | 9.79 | 215 |
| 2004-05 | 2667 | 154248 | 9.98 | 315 |
| 2005-06 | 3686 | 241045 | 9.84 | 385 |
| 2006-07 | 4316 | 295956 | 10.48 | 436 |
| 2007-08 | 4411 | 297208 | 10.27 | 434 |
| 2008-09 | 4520 | 287383 | 10.36 | 453 |
| 2009-10 | 3938 | 233862 | 10.22 | 422 |
| 2010-11 | 4223 | 241232 | 10.25 | 427 |

| | | | | |
|---|---|---|---|---|
| 2011-12 | 4303 | 248792 | 10.32 | 432 |
| 2012-13 | 4523 | 253241 | 10.98 | 489 |
| 2013-14 | 4723 | 272352 | 11.05 | 502 |

***Source: Cooperative Sugar, NFSCF***

**Table 1.2**

**Production of Sugar in India**

| Sugar Season | Production of Sugar (In '000 tones) |
|---|---|
| 1990-91 | 120 |
| 2000-01 | 1,113 |
| 2001-2002 | 1,100 |
| 2002-2003 | 3,021 |
| 2003-2004 | 3,740 |
| 2004-2005 | 5,150 |
| 2005-2006 | 12,047 |
| 2006-2007 | 18511 |
| 2007-2008 | 15,528 |
| 2008-2009 | 20145 |
| 2009-2010 | 21546 |
| 2010-2011 | 14690 |
| 2011-2012 | 18213 |
| 2012-2013 | 23321 |
| 2013-2014 | 24213 |

**Source: Annual Report, Deptt. of Food and Public Distribution, Govt. of India**

**SUGAR POLICY OF GOVERNMENT:**

The sugar industry is rigidly controlled by the govt. of India and the rules and regulation are equally applicable to the factories in government and private sector.

**CENTRAL GOVERNMENT POLICY:**

Central government regulates almost all aspects of sugar industry such as fixing of cane price, quality , storage & release of sugar stocks , fixing of sugar price and by products , payment of wages & salaries, proportion of levy sugar and free sale sugar and financing of sugar co-operatives. The major elements of Government policy which govern the functioning of sugar industry may be-(a) Licensing policy, (b) Financing policy, (c) Pricing and (d) Distribution

**CREATION OF ORGANISATIONAL SET UP:**

RBI desired that banks should set up special cells so that increased attention is focussed by them on sick sugar industries for taking feasible corrective action. They have been suggesting that such cells be set up at Head Office, Regional Offices and at potential centres. These should be provided with expert staff including technical personnel for looking into technical aspects since remedial action for reviewing sick sugar industries may not only be confined to financial areas like modernisation of plant and machinery, improving/ changing the system of production, planning, purchase, marketing and management. Reserve Bank of India

(RBI) has also been advising banks that the problems faced by small scale industrial units, need to be tackled with greater awareness and understanding. Banks should evoke consultancy cells for extending assistance/ guidance to the entrepreneurs. They should also Endeavour to establish a separate cell to look into complaints received from such class of entrepreneurs. Reserve Bank of India through its sick industrial undertaking cell, monitor the performance of commercial banks in identifying the sick sugar industries and initiates appropriate remedial measures, whenever necessary and coordinates the efforts of government, banks and financial institutions in rehabilitation of potential viable sick sugar industries. This cell also attends to processing of applications received from banks for credit authorization in respect of sick sugar industries and disposal of proposal from banks for supportive measures, charging concessional rate of interest, reduction in margin funding of interest etc. for rehabilitation of potentially viable sick sugar industries. The RBI has directed each bank to create a sick industrial undertaking cell at the central office and regional offices to identify and monitor the potentially viable sick sugar industries and determine the various step necessary for their rehabilitation. The Reserve Bank of India asked to evolve methods and mechanisms to diagnose sickness in sugar industries at the incipient stage itself and bring it to the notice of the concerned administrative ministries immediately. If there is no proper response from the concerned ministry, the matter should be brought to the notice of the Finance Ministry; Banks were also advised not to nominate the same officer on Boards of too many assisted units. The IDBI which has the major shareholding interest in SFC's along with the state governments and is the main source of finance to them, formulated a special refinance scheme for modernization and up gradation of technology and rehabilitation of sick units for channelizing SFCs assistance according to priorities in the government policy and solving the critical problems of low productivity and sickness in industries.

**ATTITUDE AND CHANGE IN APPROACH:**

Reserve Bank of India has been suggesting that banks should change their approach from security-oriented to project and person oriented. They should examine the viability of the scheme covering technical, economic, marketing and financial aspects and consider the enterpreneur's capability for making the enterprise a success. They have been emphasing the need for recruiting technical personnel for undertaking viability studies and strengthening their internal organisations for evolving an effective monitoring system. This would help banks in keeping a watch on the working of the units financed by them to detect early warning signals of sickness for taking timely remedial action.The RBI has been calling for information in respect of sick industrial undertaking enjoying credit limits of Rs. One crore and above from the banking system. The type of information called for included the following :-

1. Reasons for sickness.
2. Name of the unit, its constitution and nature of activity.
3. Name of Banks & Credit facilities auctioned by them. (D) Names of the Directors and Partners.
4. If the unit is not viable, auction taken by bank. (F) The units working results in terms of cash profit earned/cash loss incurred.

**GENERAL GUIDELINES**:

The RBI has further clarified that such units would invariably have a working capital term loan which they are not in a position to repay. Such units will require a comprehensive rehabilitation programme and intensive care over a period. Care should be taken to distinguish these units from those units which merely indicate incipient sickness calling only for a close watch and preventive remedial action on the part of the banks.

**AMALGAMATION/MERGER OF SICK UNITS WITH HEALTHY ONES:**

Banks, while approving proposals for rehabilitation of sick industrial undertakings including those of amalgamation/ merger of sick units with healthy ones, sometimes enter into commitments involving sacrifice in the matter of repayment of their past dues (i.e. funding of dues and spreading repayment over a long period at low rate of interest), and in the matter of provision for additional bank fund at concessional rate of interest. In such cases the banks may see that the extent of benefit accruing to the transferers under the Income Tax Act (Section 72-A) is also sacrificed while reviving such sick units.

**GRANT OF RELIEFS**

Banks should ensure that the difficulties of sick units are not compounded by charging a penal rate of interest. While drawing rehabilitation programmes, they should review penal charges, if any, levied in the accounts and provide necessary reliefs where appropriate. These reliefs may generally include funding of overdue interest, converting deficit into term loans, reduction in interest rate, reduction of margin, etc.

**APPROVAL OF RBI UNDER CREDIT AUTHORIZATION SCHEME:**

Some of the terms and conditions of the rehabilitation package (i.e. providing additional banks finance to borrowers covered by the credit authorization scheme, reduction in the rate of interest below the minimum lending rate stipulated by the RBI) require prior authorization/clearance of the RBI. Before banks commit themselves to such terms and conditions in a rehabilitation scheme, the RBI prior authorization/clearance should invariably be obtained.

**MONITORING AND FOLLOW UP:**

The RBI appointed a study group to frame guideline and follow up for bank credit. It aimed at providing guidelines to commercial banks and supervising credit for ensuring proper end use of funds and keeping a watch on the safety of advances. The report suggested the type of operational data and other information which may be obtained by banks periodically. For this purpose, the study group suggested proformas covering the requirements of the units details of current assets and liabilities, sources and utilisation of funds and position of profit etc. These have been adopted by banks for monitoring and follow up of the account enjoying a credit limit of Rs. 50 lakhs and above from the banking system. Bank have also been asked to monitor the accounts enjoying lesser limits for keeping a watch on their working.

**REVIEWING RELIEFS AFTER REHABILITATION**:

Banks may also review the repayment terms and conditions extended over a long period of time to sick units for their rehabilitation. It would be desirable if the package of measures and terms and conditions and reviewed at periodical intervals so that, if the units fared well, the banks could negotiate for better terms for the remaining period of commitment.

**REFERRING CASES TO IDBI:**

The RBI stated that the banks, while exploring possibilities of rehabiliting sick units, may encounter a situation in which they themselves may not be able to provide the assistance required i.e. sanction of long term loan either interest-free or low-interest funds, concessions in the matter of taxation adequate and regular supply of inputs including power change in management of the unit, etc. In such instances, banks may refer cases to IDBI which would look into the problems of such units, consider a package of measures necessary including injection of long term funds for rehabilitation of sick units and bring together different agencies in finalising the rehabilitation programme.

**INVOLVEMENT OF FINANCIAL INSTITUTIONS AND BANKS :**

Rehabilitation programme should be finalised after establishing the viability of the unit. In case the rehabilitation programme is to be taken up mainly on the consideration of social obligation, it may be necessary for banks to see that the sacrifices involved, are shared not only by them and by the financial institutions but also by all other agencies involved like owners, other creditors, government, labour etc.

The recent policy guidelines of the Centre have liberalised the convertibility clause on loans from financial institutions to equity capital of companies. Loans upto Rs. 5 crores would be exempted irrespective of whether it was an MRTP or non-MRTP company. IFCI Chairman Shri D.N. Davar however recently said that convertibility option would continue in the case of companies which were mismanaged, defaulted successively in the payment of loans and acted in the manner prejudicial to public interest. Recent policy guidelines have also specified the role of nominee directors, who would take part in the policy making of the company, but would not interfere in day-to-day administration. However Shri Davar further warned that the monitoring by the nominee directors would not be a lip service but would be effective. Wherever the paid up capital of the company was more than Rs. 5 crores, the company was expected to appoint an audit sub-committee which have nominee directors from the financial institution. The three-pronged strategy for sick units evolved by the Industry Ministry in the last week of June 1981 aims at preventing sickness in industry; quick rehabilitation of units and an early decision on the future of such units. A three member cabinet committee, consisting of the Union Finance Minister, the Union Commerce Minister and the Union Minister of State for Industry was to scrutinize this strategy. A major plank of the new strategy is the provision that units employing 1000 persons or having an investment of Rs. 9 crores or more in fixed assets should be nationalised, if the Reserve Bank of India, the Financial Institutions and the State Government are unable to contain the growing sickness in the sick units. This would, however be subject to three further considerations. A sick unit would be nationalised provided that (a) the line of production is critical to the economy (b) the unit has been functioning as a mother unit with large ancillary linkages; and (c) its closure would cause substantial dislocation and throw out of employment such a large number of persons that it would not be possible to provide alternative jobs to them. The Union Industry Ministry also cautioned that it would not be desirable to nationalise a unit which is inherently non-viable. The new strategy has therefore emphasised the need for concerned administrative ministry to satisfy itself regarding the viability of the unit before a decision is taken to nationalise it. However the new strategy completely leaves out small scale units from its scope even though incidence of sickness among these units is quite significant.

**OTHER STEPS TAKEN BY RBI**

In addition to the above guidelines the RBI has also taken the following steps to tackle this problem :

**Special Cell :**

The RBI has established a cell of its own to function as a clearing house for information relating to sick units and to act as a co-ordinating agency between government, banks, financial institutions and other agencies for tackling various related issues, Cells set up in banks, are to function in close coordination with this RBI cell so that the specific problems faced be sick units are brought to their notice.4

**State Inter-Institution Committees :**

The RBI has set up state inter-institutional committees at important centres with representatives from the concerned state government, financial institutions, banks and the RBI under their convenership so that there is adequate interfacing between State Government Officials and State Level Institutions. These committees besides providing a useful forum for exchange of information and discussions on problems faced by small/medium scale industrial units and small entrepreneurs, deal with problems relating to co-ordination between banks and financial institutions, provision of adequate infrastructural facilities to industrial units and general problems relating to grant of credit to such units.The RBI has been asked to convene a conference of financial institutions and banks to review all aspects of financing and revival of sick industrial units. While addressing a meeting of the consultative committee of MP's attached to industry ministry it was emphasized that the conference would consider ways and means to check Industrial Sickness. State secretaries of finance and industry would also be invited to the meeting. Members of the consultative committee felt that financial institutions should be able to identify incipient sickness and take immediate remedial measures instead of allowing the units to continue accumulating losses and then provide financial assistance. Further it was felt that the banks should be more liberal in providing loans in the case of sick units.

## CONCLUSIONS:

It has been a practice now-a-days to exert external influence on financial agencies to force them to sanction projects without proper viability studies. This tendency on the part of the higher authorities should be checked in the interest of the economy. Our effort should be to appraise a project on merits alone and in a very objective manner. Greater autonomy for monitoring officers and officers sent as advisers may act as effective sickness preventive mechanisms, provided that these officers are well-trained in professional industrial and financial management. Otherwise they may aggravate sickness by their uniformed interference. Banks should continue to operate on the basis of the entrepreneur's viability as well as the project's viability.

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