

Cost Management in Sugar Industry



Commerce

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ABSTRACT

The basic aim of any organization is to maximize the profit so we have two options, one is increasing the sales and another one is decreasing the cost of product. Here cut down the expenditure and reduce the cost of production and the cost reduction is real and permanent reeducation in unit cost without reducing quality. The basic object of this paper is what is the best way the cost of sugar production per unit can be controlled and reduced. To find out present cost management loop wholes in sugar industry and give suitable suggestion to overcome those hurdles with The collected information and tabulated by using simple calculations and presented result by using graphs and tables.

Introduction

Cost reduction is the essential part of the sugar industry so it's real and permanent reduction in unit cost is utmost important. Cost efficiencies which is the key to survival and growth in present and future global cutthroat competition a rational approach for continues cost reduction programme to keep cost structure to the lowest possible level. In long run cost efficient organization has best chances for survival and growth and it is continues phenomena.

Introduction to sugar industry

Diversification of activities is the characteristics feature the co-operative movement in the country performance of the co-operative 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 factors 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.

Review of the Literature

P.N.Devekar in 1951 studied "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.

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.

RBI 1980 A Study Group 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.

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.

Need of the study

The sugar factory and production, marketing, finance, technol-

ogy and the rest of other aspects of sugar industry by the No of researchers as can be seen in review of literature on sugar industry. But a little attention has been devoted to the internal structure and cost management policies and practices followed by these industries. The study is most helpful and gives needed suggestion to improvement in existing cost management philosophy.

Statement of the Problem

The present study is confined to study of "Cost Management in Sugar Industry". In the opinion researcher the main focus of this report is to find out the soundness of cost management and efficiency in the management to enhance the quality in cost management

Objectives of the study

The following are the important objectives of the study

1. To examine the working efficiency of sugar mills.
2. To find out the factors responsible for high cost per unit of sugar production.
3. To give suggestions to reduce cost per unit of sugar production.

Methodology and Data collection

It is empirical research researcher has analyzed the cost of production, components of cost of production and the recovery of sugar. Percentage method has been used to analyze the cost elements and break even-recovery of sugar The secondary data were obtained from the sugar fed journal and profit & loss a/c and related dissertation records which are maintained by sugar mills.

1. The working efficiency of sugar mills.

India has emerged as the largest production of sugar in the world. Indian sugar sector accounts for 2.5% of the country industrial production and co-operative sector of the sugar industry made rapid progress till recently accounting for not only nearly 50% of the national production of sugar.

Table1.Indian sugar Industry at glance

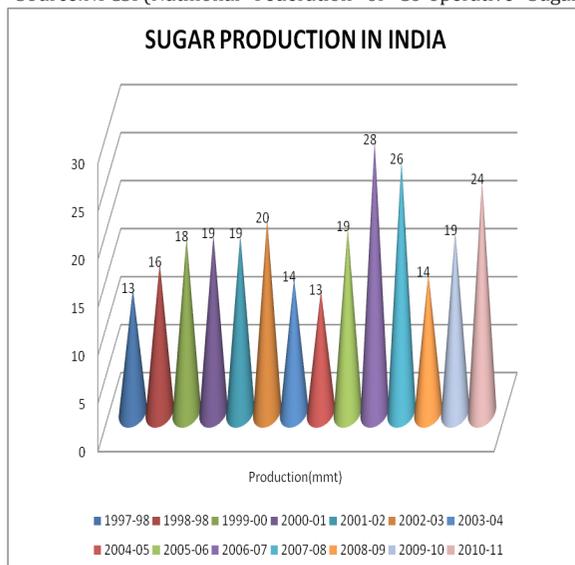
No. of Installed Factories:	450
Public Sector:	67
Private Sector:	135
Cooperative Sector:	248
Capacity:	131.2014 lakh tonnes
Public Sector:	12.751 lakh tonnes
Private Sector:	43.0782 lakh tonnes
Cooperative Sector:	75.3722 lakh tonnes
Sugar Production (2010-11):	24.20 Metric Million Tonnes
Capacity Utilization:	131.32 %

Total Turnover:	Rs.70885.2 Million
Average Recovery:	9.84%
Area Under Cane:	37.86 lakh hectares
Yield:	65.4 tonnes / hectare.
CARG:	7 - 10%

Table2.Sugar Production

Year	Production(mmt)
1997-98	12.86
1998-98	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
2006-07	28.30
2007-08	26.30
2008-09	14.48
2009-10	18.90
2010-11	24.20

*Source:NFCSF(Natinonal Federation of Co-operative Sugar



Factories Ltd,New Delhi

*(mmt): Metric Million Tonnes.

Above diagram clearly show 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 ,the sugar produced 14,19 & 24 (mmt) in respective year.

2. Factors responsible for high cost per unit of sugar production.

Sugar industry in India is facing lot of challenges. Profitability is continuously thinning out for the millers & global level competi-

tion is becoming an unrealistic expectation. Some of the challenges/problems faced by the sugar industry can be highlighted as:

- Government regulates sugarcane pricing, levy quota, sales & export/import. Moreover, sugar is classified as an essential commodity in the Essential commodities Act. 1955.
- Sugar is an item of mass consumption and plays vital part in daily life we need 270 lakha tonnes of sugar for internal consumption. the Govt of India purchase 40% of total production of sugar as levy sugar from the factories at pre-determined price for public distribution and factories are allowed to sell remaining 60% 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 definitely it enhance the loss of sugar mills.
- Average crushing capacity is very low at just 2000 TCD.
- A long term perspective is lacking from the govt. Decisions are taken ad-hoc & only as an immediate measure rather than a long-term policy change.
- Political consideration in government sugar policy. For example: Fixation of SAP by the state Govt. Poor quality of sugarcane in terms of Sucrose Content.
- High cost of production due to unusually high price paid by millers to growers & poor quality of sugarcane. The actual price paid by millers to cane growers is way above the minimum price set by Central Govt (SMP). Generally, 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.
- Low yield, low rate of recovery & frequent drought in tropical/sub-tropical regions. Horizontal Growth of the Industry. Small size sugar plants are being set up all over the country.
- Most of sugar units in India utilize production capacity below 50%.Low capacity utilization and inadequacy of raw material led to closer of 100 sugar factories in India.
- Sugar prices have been a political issue rather than economical issue. Many times it worsens economy of sugar factories.
- 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.

3. Suggestions to reduce cost per unit of sugar production

- Deregulation of the Sugar industry.
- Having a number of small players in the market, Increase of high capacity mills/companies is definitely advantageous. 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.
- Proper utilization of by-product. Typically, 100 tonnes of cane crushed gives only 10 tonnes of sugar & the rest is by-products: Molasses (4.5 Tonnes), Baggase (33 Tonnes) & Press Mud (2.5 Tonnes) Utilization of these by-products in an effective manner can substantially increase the profitability of sugar companies.
- Research & Development there is a need to develop technologies to improve the production. Countries like Cuba & Hawaii have higher cane yield than India.
- Production of ethanol will increase profitability as demand will stay due to the government's rule of ethanol blending ethanol with petrol.
- These mills cannot have economies of scale so they have to incur high production costs. Indian sugar industry is characterized by high production costs. Therefore, daily crushing capacity should be extended to 2500 tonnes.
- 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. 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 and time and maximum profits are earned.

- Keeping right man on the right job. And do job evaluation work in time.
- Worker should be made to feel that he is not simply a wage earner, but he is a part of mill. With this feeling the output / production would go up at reduced cost.

Conclusion:

From the study it is concluded that performance of co-operative sugar mills in India is very poor when compared with international sugar industry. This is due to sugar mills do not have effective control over the cost incurred during the production and low recovery of sugar from the sugarcane crushed. In order to have a better control over the cost of new techniques like activity based on costing etc., to be followed. Recovery of sugar can be improved by using modern machineries. Hence it will improve the productivity and increase the profitability. Sugarcane prices should be fixed on basis of sugar recovery. Attention is to be given on manufacturing quality sugar as per international standards at competitive prices.

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