

## CHAPTER-III SUGAR FACTORIES

### 3.1 Introduction

Molasses is un-crystallised syrup obtained as an important by-product in the process of manufacture of sugar. The total reducing sugar content present in the molasses produced by sugar factories is ascertained by chemical analysis, and generally ranges between 40 and 50 *per cent* of the molasses. The most important use of molasses is in the manufacture of alcohol, both potable as well as industrial, particularly alcohol-based chemicals. It is also used in cattle feed and tobacco curing. The supply and distribution of molasses produced by 157 sugar factories in Uttar Pradesh is governed by the *Uttar Pradesh Sheera Niyamtran Adhiniyam, 1964* (Act) and the *Uttar Pradesh Sheera Niyamtran Niyamavali 1974* (Rules). The State Government appointed the State Excise Commissioner as the Controller of Molasses in November 1965. The sugar factories are responsible for proper and scientific storage of molasses in the factories. For this purpose, the Government in 1974 ordered for creation of a separate fund, called the ‘Molasses Fund’, into which such amounts, as may be determined and notified by the Controller of Molasses from time to time, shall be deposited. The Government has notified the rates on the basis of sale proceeds of molasses and the amounts recovered on this account are required to be credited to this fund by the sugar factories.

We test checked the records of 16 sugar factories<sup>1</sup> during the period September 2009 to December 2009. Our audit revealed a number of deficiencies involving money value of ₹ 80.31 crore. The specific cases are mentioned in the succeeding paragraphs.

### 3.2 Non-imposition of penalties

#### 3.2.1 13 Sugar factories

We noticed that 10,269 MF 4 gate passes were received back by the above sugar factories from the distilleries with average delays of 68 days during the years 2006-07 to 2008-09. The department did not initiate any action to impose the prescribed fine for such default resulting in a loss of ₹ 5.51 crore as shown in Appendix II. After we pointed this out, five units replied that in future utmost care will be taken for timely receipt of MF 4

Rule 27 of *Uttar Pradesh Sheera Niyamtran Niyamavali, 1974* provides for verification of MF 4 passes, by which molasses are received in distilleries from sugar factories, within one week of the arrival of the consignment at the distillery.

<sup>1</sup> Bulandshahar (Agauta Sugar Mill), Balrampur (Balrampur Sugar Mill), Bareilly ( J. K. Sugar Mill Meerganj), Bijnor (Dhampur Sugar Mill & Uttam Sugar Mill Barkatpur), Gonda (Balrampur Sugar Mill Babhnan and Mankapur Unit), Mau (Ghosi Sugar Mill), Meerut (Daurala Sugar Works & Mawana Sugar Mill), Moradabad (Asmauli Sugar Mill & Triveni Sugar Mill Thakurdwara), Muzafarnagar (Tikola Sugar Mill Tikola & Triveni Sugar Mill Khatauli) and Saharanpur (Bajaj Hindustan Sugar Ltd. Gagnauli & Triveni Sugar Mill Deoband).

passes. However, the remaining eight units stated that passes were received back within the 45 day limit which was fixed by the Excise Commissioner. The reply is not correct as the time limit of seven days prescribed in the Rules for verification of passes of MF 4 was raised to 15 days in May 1997 and to 45 days in July 1999 by the Molasses Controller, though such powers were not vested in him under the Act. Thus, grant of extension of time limit in receipt of the verified passes in violation to the provisions of the *Niyamavali* was incorrect.

### **3.2.2 Three<sup>2</sup> sugar factories**

We noticed that 64,911.03 quintals of molasses were issued to distilleries through 220 MF 4 gate passes but even after lapse of one to 24 months, the

Under the provision of Section 11 of *UP Sheera Nyantran Adhiniyam, 1964*, a person contravening any provisions of the Act or rules/orders made/issued thereunder, will be punishable with imprisonment or with fine which may extend to two thousand rupees or both and in case of a continuing contravention, with an additional fine which may extend to one hundred rupees for every day during which the contravention continues after conviction for the first such contravention.

MF 4 passes were not received back in the sugar factories. There was nothing on record to prove that the department had ever made any effort to get these passes verified by the authorised officers. Thus, the receipt of molasses by distilleries was not verified. The molasses contained TRS<sup>3</sup> of 29,022.68 quintals and 25,539.95 quintals of fermentable sugar having potential of producing 13,40,847.81 AL of RS<sup>4</sup> involving excise duty of ₹ 52.58 crore.

After we pointed this out, the concerned inspectors of the sugar factories stated that the relevant passes would be collected shortly. The reply furnished is not correct as the time limit provided in the Act has already lapsed and the chances of misutilisation of the passes cannot be ruled out which may lead to illegal trafficking of molasses. Steps are required to be taken for invoking the penalty clause provided in the Act.

**The Government may consider issuing directions to ensure that the provisions for getting the passes back within the prescribed period are complied with and in case of default impose penalty without any delay.**

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<sup>2</sup> Bulandshahar (Agauta), Meerut (Mawana) and Moradabad (Asmauli)

<sup>3</sup> TRS: Total Reducing Sugar means percentage of total sugar content present in molasses

<sup>4</sup> RS: Rectified Spirit

### 3.3 Irregularities in maintenance of molasses account

#### 3.3.1 Three<sup>5</sup> Sugar factories

We noticed that in the above factories the quantity of molasses stored in the factories measured on 95 occasions, on the basis of dips and brix<sup>6</sup> taken by the department, for the periods from April 2007 to October 2009 was 33,14,302.36 quintals against which 32,89,951.15 quintals were booked in the accounts by the department leaving an unaccounted gap of 24,351.21 quintals. This resulted in loss of TRS of 11,681.56 quintals and 10,279.78 quintals of fermentable sugar having potential of producing 5,39,688.47 AL of rectified spirit involving excise duty of ₹ 21.40 crore.

Rule 32 of the *Uttar Pradesh Sheera Niyamavali* 1974, states that every sugar factory is required to maintain an accurate daily account of molasses produced, stored, issued, sold or wasted in a register in form MF 5. Quantity of the molasses stored in tanks can be calculated on the basis of the dips taken at the time of receipt or issue of the molasses.

After we pointed this out, the concerned inspectors of the sugar factories replied (between September 2009 and December 2009) that the difference was due to foam content present in molasses. The reply is not correct as there is no provision in the rules for permitting reduction on account of the foam content. Also the records maintained by the department had no entries relating to the foam content, if any, present in the molasses.

**The Government may consider issuing directions to the department for taking corrective steps for measurement of molasses in accordance with the prescribed rules.**

#### 3.3.2 Ten<sup>7</sup> Sugar factories

We observed in the above factories that the actual quantity of the molasses, as per the dip taken, was directly recorded in the fortnightly/monthly statements sent to the Controller of Molasses. Thus the basic records required, like the dip and brix, to determine the quantity of the molasses are not being maintained. In absence of these, the correctness of the quantity mentioned in the statements submitted to the Controller cannot be ascertained.

**The Government may consider issuing directions for ensuring maintenance of the basic records in the sugar factories to ensure correctness of the quantity of the molasses mentioned in the statements submitted to the Controller.**

<sup>5</sup> Meerut (Daurala Sugar Works) and Muzafarnagar (Tikola Sugar Mill Tikola & Triveni Sugar Mill Khatauli)

<sup>6</sup> Plunging of a scale into liquid to get wet to know its volume and the density of the liquid.

<sup>7</sup> Bulandshahar (Agauta Sugar Mill), Balrampur (Balrampur Sugar Mill), Bareilly (J. K. Sugar Mill Meerganj), Gonda (Balrampur Sugar Mill Babhnan and Mankapur Unit), Meerut (Daurala Sugar Works & Mawana Sugar Mill), Muzafarnagar (Tikola Sugar Mill Tikola & Triveni Sugar Mill Khatauli) and Saharanpur (Bajaj Hindustan Sugar Ltd. Gagnauli).

### **3.4 Short deposits in molasses fund**

Rule 3(1) of the *Uttar Pradesh Sheera Niyantaran Niyamavali, 1974* read with *Uttar Pradesh Sheera Niyantaran Adhiniyam, 1964*, provide that a sugar factory shall provide adequate safeguards against leakage, seepage, overflow or any other accident likely to damage the quality of molasses stored in the factory. It is required to be stored in covered accommodation which should store at one time at least 50 per cent of the total production of molasses, calculated at four per cent of the total sugarcane that can be crushed in 140 working days according to the full registered cane crushing capacity of the factory or 50 per cent of the highest total production of molasses from the last four years, whichever is higher. For this purpose a fund called 'Molasses Fund' shall be created into which the amounts as may be notified by the Controller of the Molasses from time to time shall be credited by the sugar factory.

#### **Four<sup>8</sup> sugar factories**

In case of a sugar factory which does not have adequate storage facility, the rate of contribution toward the molasses fund depended on the grade of molasses. It ranged between ` 1.50 to ` two per hundred kilograms while in case of a sugar factory which has adequate storage facility, it was ` 0.50 on all grades of molasses.

We noticed from the test check of records<sup>9</sup> of factories that despite the fact that the above sugar factories did not have sufficient storage<sup>10</sup> facilities for molasses, they deposited the molasses fund at the rate of ` 0.50 instead of ` 1.50 per 100 kilogram of molasses. Thus only

` 41.23 lakh was deposited in the molasses fund instead of the prescribed amount of ` 1.17 crore. This resulted in short deposit of ` 75.77 lakh in the molasses fund by these sugar factories.

### **3.5 Non-levy of administrative charges on below grade molasses**

#### **Two<sup>11</sup> sugar mills**

The occupier of the sugar factory shall be liable to pay to the State Government, in the manner prescribed, administrative charges at such rate, not exceeding fifteen rupees per quintal as the State Government may from time to time notify [through the Molasses Controller under powers defined in section 8 (1) of the *Uttar Pradesh Sheera Niyantaran Adhiniyam, 1964*], on the molasses sold or supplied by him.

We noticed in the office of the Excise Commissioner in September 2008 that during the years 2005-06 and 2006-07 administrative charges of ` 6.61 lakh were not levied on above sugar mills. These sugar

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<sup>8</sup> Balrampur (Balrampur Sugar Mills), Gonda (Balrampur Sugar Mills, Babhnai Unit) Mau (Ghosi) and Moradabad (Triveni)

<sup>9</sup> Sugar production, cane crushing files and Molasses production register.

<sup>10</sup> The factories did not have the capacity as per the norms fixed by the department.

<sup>11</sup> Anand Agro Cam Sugar Mills (1,700 quintals) and Maijapur Sugar Mills (58,409 quintals)

mills produced 60,109 quintals of molasses.

After we pointed this out, the department intimated that this was due to non-levy of the charges on the “below grade molasses”. The reply is not correct as the Act does not prohibit or exempt any class of molasses from the levy of the administrative charges. Thus by not levying the administrative charges on the factories there was a loss of revenue of ` 6.61 lakh.

**The Government may issue directions for levying administrative charges as per the Act, irrespective of the grades of the molasses.**

## CHAPTER-IV DISTILLERIES, BREWERIES AND A.T. LABORATORIES

