Chapter-V

By-products and out-turn ratio

5.1 Introduction

As per the CMR Scheme, the paddy procured by FCI/SGAs is required to be delivered to the mills for milling operation and the resultant rice is to be delivered to FCI stocking point for which transportation cost is reimbursed by FCI. After conversion by milling as per norms laid down by Tariff Commission, (2005), 100 kg of paddy is expected to produce 67 kg raw rice or 68 kg in case of par-boiled rice. During conversion process of paddy, valuable by-products such as rice bran, broken rice, phack (by-product of paddy used as cattlefeed) and husk are generated, which have a realizable market value. These by-products are retained by the rice millers and the GoI recovers market value of by-products at the rates fixed in 2005 on the basis of report submitted by the Tariff Commission (TC), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India. These rates have neither been revised thereafter nor is there any provision for yearly increase in the by-product recovery rates. Audit examined the impact of non-revision of these rates. For this, Audit compared the prevailing market rates of by-products, wherever made available, vis-à-vis those fixed by the Tariff Commission. Important audit observations are brought out in subsequent paragraphs.

5.1.1 Non revision of milling charges/deductible value of by-products resulting in undue benefits of ₹ 3,743 crore to the Millers

Tariff Commission was entrusted (January 2005) the study for determination of normative milling charges[88] for raw rice and par-boiled rice, by the Ministry. The Commission submitted its report in September 2005 after conducting a detailed study of various rice mills situated in different States[89] of the country. The recommendations of the Commission were accepted (October 2005) by the Ministry resulting in fixation of milling charges of ₹ 15 per quintal for raw rice and ₹ 25 per quintal for par-boiled rice. These milling charges include transportation cost of paddy and rice from 0-8 kms from the mandis/Paddy Purchase Centres to mills and from mills to storage point, for all the states. These normative milling charges were arrived at by the Tariff Commission after deducting the value of by-products[90] from the cost of milling, as the by-products are retained by the millers and sold in the open market, as per the instructions of the GoI. All these by-products have realizable market value because of their varied use (especially broken rice and rice bran which is used to make rice bran cooking

[88] *The normative milling costs was computed on the basis of actual cost assessed in respect of selected millers in the State covered under the study and by adopting the technical norms assessed by the Tariff Commission.*

[89] *Andhra Pradesh, Chhattisgarh, Haryana, Orissa, Punjab, Tamil Nadu and Uttar Pradesh.*

[90] *During conversion process of paddy, the by-products such as broken rice, rice bran, phack and husk are generated which have a reasonable realizable value and these by-products are retained by the rice millers.*

oil). The Tariff Commission while fixing the normative milling charges for raw and par-boiled rice had worked out the realizable market rate of rice by products at ₹ 339.60 per MT of paddy milled for raw rice and ₹ 373.80 per MT of paddy milled for par-boiled rice.

These milling charges as well as deductible value of by-products have not been revised since 2005 despite significant increase in the realizable value of by-products extracted out of convertible paddy into rice. This was reported by Tariff Commission (2012) and also in subsequent report of Quick Study (2012) which involved members from FCI and the Ministry.

It was also seen in audit that though the Government of India entrusted fresh study for fixation of milling charges to the Tariff Commission way back in April 2009, out of 12 States[91] covered in the study, only four States[92] responded. The millers were stated to be hesitant to disclose their financial information; the Government of Haryana in fact stated that due to fear of Income Tax Authorities, the millers were not submitting the required information. As a result, the Tariff Commission has not been able to suggest a formula for increase in milling charges.

Based on the information provided by the State Governments, Audit noticed that excess net realization per MT on sale of by-products ranged from a low of ₹ 10.13 (during 2011-12 in case of Uttar Pradesh) to a high of ₹ 2,226.47 (during 2013-14 in case of Andhra Pradesh). Audit collected data of the excess net realization by millers in different States. Based on the data available from the States (Andhra Pradesh, Telangana, Uttar Pradesh and Chhattisgarh), it was seen that ₹ 3,743 crore ***(Annexure - VIII)*** was retained as excess net realization value by the private rice millers between 2009-10 and 2013-14 in selected districts of above States. Details are given in table below:

Table 5.1
Statement showing excess net realisation derived from by-products during the period from 2009-10 to 2013-14

States	Procurement in selected districts (in LMT)	Total Excess net realization in selected districts (₹ in crore)
Andhra Pradesh	267.47	3156.06
Telangana	40.02	185.93
Uttar Pradesh	37.22	-9.85
Chhattisgarh	50.39	410.86
Total	**395.10**	**3743.00**

[91] *Punjab, Haryana, Andhra Pradesh, Chhattisgarh, Odisha, Tamil Nadu, West Bengal, Bihar, Madhya Pradesh, Uttar Pradesh, Uttarakhand and Kerala*

[92] *Chhattisgarh, Tamil Nadu, Punjab and Kerala*

Thus, non revision of milling charges resulted in undue benefit of ₹ 3,743 crore to the millers. This also led to loss of revenue to the GoI and consequently lost opportunity to reduce food subsidy to that extent.

Importantly, the above excess net realization of ₹ 3,743 crore pertains only to 15.81 *per cent* of total paddy procurement in the country during 2009-10 to 2013-14. As the actual figures for the entire country will invariably be much higher, it is recommended that the GoI may ascertain the full quantum of excess realization by millers in order to realistically revise the milling charges and reduce the food subsidy burden on the exchequer.

Recommendation No. 13	**Ministry's Reply**
The GoI may take up with the State Governments to impress upon the millers to provide the data about milling and other costs to Tariff Commission for timely completion of study for refixation of the milling charges and out-turn ratio.	The Recommendation is accepted.

5.1.2 Non-revision of out-turn ratio led to excess retention of rice by millers valuing ₹ 1,195.40 crore in Andhra Pradesh Region of FCI

The Government of Andhra Pradesh (GoAP) with the prior approval of the GoI imposes levy on private rice millers for delivery of Levy Rice. The levy percentage was fixed at 75 *per cent* for the seasons KMS 2009-10 to 2013-14.

The rate payable for levy deliveries is communicated by the GoI and FCI admits the bills of private rice millers accordingly. The rates payable for the levy deliveries are derived by adopting 67 *per cent* out-turn ratio for raw rice and 68 *per cent* out-turn ratio for par-boiled rice.

In 2005, the Indian Institute of Crop Processing Technology (IICPT) Thanjavur (under the administrative control of Ministry of Food Processing Industries, the GoI) conducted test milling of MTU 7029 variety of paddy largely grown in East Godavari and West Godavari districts (referred to as the rice bowl of Andhra Pradesh). The out-turn ratio was reported for such variety at 72.08 *per cent* and the reports were intimated to FCI Head Office, New Delhi.

However, the above mentioned higher out-turn ratio obtained on milling of the paddy and deliveries thus made under levy route was not considered by FCI/the GoI in the Cost Sheet and no suitable adjustment for higher out-turn ratio was incorporated for Andhra Pradesh region. The lower out-turn ratio adopted for these two districts would result in retention of excess rice by private rice mills. Even though the entire cost in terms of paddy was reimbursed to private rice mills due to fixation of lower out-turn ratio, the private rice mills benefited by way of retention of excess rice obtained (on account of higher output). The value of such excess rice retained for KMS 2009-10 to 2013-14 worked out to around ₹ 1,195.40 crore.

FCI Regional Office, Andhra Pradesh replied that out-turn ratio was fixed by the GoI and it is accepting the Levy Rice accordingly.

In respect of Paddy MTU 7029 variety, the IICPT, Thanjavur carried out test milling and concluded that the out-turn ratio was over 72 per cent and this was also communicated to FCI Head Office.

As the Mill Levy receipts at Area Office, Kakinada (East Godavari) and Tadepalligudem (West Godavari) forms part of this variety, a change in out-turn ratio at least in respect of these two districts is need of the hour.

Moreover, technology advancement since last report of Tariff Commission report (2005) warrants that out-turn ratio of 67 *per cent* is reassessed to ensure that the millers do not reap undue benefits at the cost of the GoI leading to non-reduction of subsidy on this account.

The Ministry stated (June 2015) that test milling study on MTU 7029 paddy by IICPT, Thanjavur pertains to one specific variety and the paddy procurement under the Central Pool is not done on varietal basis. It further replied that a fresh study has been assigned by FCI to IICPT, Thanjavur to ascertain out-turn ratio in various States including Uttar Pradesh where hybrid varieties are also to be taken for the study.

5.1.3. Wrongful payment of VAT to the tune of ₹ 6.26 crore to State Excise and Taxation Department of Punjab

As per milling agreements between Millers and SGAs, by-products are the property of millers. However, the State Excise and Taxation Department of Punjab served notices to the district drawing and disbursing officers of all four[93] SGAs in Punjab and FCI to pay VAT, since 2009-10, on the amount generated by the sale of by-products of paddy, by rice millers. SGAs in Punjab also paid ₹ 6.26 crore as VAT on the income generated by the sale of by-products of paddy by rice millers. Thus, despite the by-products of paddy being the property of rice millers, SGAs wrongfully paid VAT which otherwise should have been paid by rice millers.

[93] *PSWC, PUNSUP, PAFCL and PUNGRAIN*