

CHAPTER-II

2 REVIEW RELATING TO GOVERNMENT COMPANIES

OPERATIONAL PERFORMANCE OF TAMIL NADU SUGAR CORPORATION LIMITED AND PERAMBALUR SUGAR MILLS LIMITED

HIGHLIGHTS

The operational performance of the two sugar mills was adversely affected due to:

- shortfall in the procurement of sugarcane, which was attributable to the inordinate delay in making payment for sugarcane procured;
- the State Government's directive for making payment of the State Advised Price and transport subsidy to the sugarcane growers which resulted in additional financial burden of Rs.29.53 crore;
- shortfall in the achievement of budgeted production, low crushing rate and loss of production hours in excess of the norms which resulted in loss of contribution of Rs.16.17 crore.

(Paragraphs 2.7, 2.9.2, 2.9.3, 2.11, 2.12 and 2.13)

Audit also noticed that:

Consumption of bagasse, steam and power was more than the norms.

(Paragraphs 2.16, 2.17 and 2.18)

The companies were burdened with huge inventory and consequent inventory carrying cost of Rs.10.39 crore per annum due to non-receipt of release orders from the Government of India.

(Paragraph 2.20)

Introduction

2.1 Tamil Nadu Sugar Corporation Limited (TASCO) was formed in October 1974 with the main objective of setting up of new sugar mills and expansion of existing sugar mills. Perambalur Sugar Mills Limited (PSM) was incorporated in July 1976 as a subsidiary of TASCO. TASCO set up Arignar Anna Sugar Mills (AASM), which started commercial production in February 1977 with an installed capacity of 1,250 Tonnes Crushed per Day (TCD) and later on expanded to 2,500 TCD in 1989-90. PSM established a sugar mill viz., Jawaharlal Nehru Sugar Mill at Eraiyur, Perambalur District in February 1978 with installed capacity of 1,250 TCD, which was expanded to 3,000 TCD in 1989-90.

The Government of Tamil Nadu (Government) took over (December 1983) Madura Sugar Mills. The assets of Madura Sugar (with an installed capacity of 800 TCD) were vested (December 1983) with TASCO. The installed capacity of the mill was expanded to 1,250 TCD in 1984-85. Due to uneconomic size of operation and high cost of procurement of sugarcane, the mill remains closed since May 2002.

Chief Executive Officer of each mill is in-charge of overall operations of the mill under his control.

TASCO and PSM incurred losses for the five years ended 31 March 2005 and their paid up capital as on that date had been completely eroded by the cumulative losses. TASCO has incurred a loss of Rs.6.04 crore (provisional) in 2004-05, while PSM incurred a loss of Rs.5.80 crore. The main reason for the losses incurred by these two mills was the heavy interest burden on funds borrowed from the Government and other Public Sector Undertakings. Audit noticed that these borrowed funds were utilized as working capital, i.e., to make payment for sugarcane procurement.

The performance of these companies was last reviewed in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1991. The Report was examined by the Committee on Public Undertakings (COPU) in its 168th Report presented to the State Legislature on 30 April 1994. The major recommendation of COPU was to fix norms for permissible loss of sugarcane crushing hours after considering all factors and taking into consideration the situation prevailing in private/co-operative sugar mills.

Scope of audit

2.2 The operational performance of these companies during the five years period ended 31 March 2005 were analysed by checking the records at Head Offices and at both the sugar mills during December 2004 to March 2005. The results of the analysis are given in the succeeding paragraphs.

Audit objectives

2.3 Audit was conducted with a view to ascertain whether:

- procurement of sugarcane was economical;
- production of sugar was economical;
- efficient use of bagasse, molasses, steam and power was ensured;
- recommendations of COPU were complied with.

Audit criteria

2.4 Audit criteria considered for assessing the achievement of audit objectives were to evaluate whether:

- sufficient area of sugarcane was registered with the companies to ensure economical procurement of required quality and quantity of sugarcane;
- there was effective control mechanism in place to ensure economical production of sugar;
- norms were fixed for generation of bagasse and molasses;
- norms were fixed for efficient utilisation of steam generated in the mills.

Audit methodology

2.5 The methodology adopted for attaining audit objectives with reference to audit criteria were examination of:

- Government Orders relating to area allotted, price fixation of sugarcane, sale of molasses, etc;
- Review of Board Notes and Agenda papers;
- Visit to sugar mills;
- Monthly Performance Reports;
- Budgets;
- Cost Audit Reports;
- Stores records;
- Issue of Audit enquiries;
- Interaction with the Management.

Audit findings

Audit findings as a result of test check were reported to the Management/Government in May 2005 and were discussed in the meeting of the Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 3 August 2005. The Secretary, Industries Department, Government of Tamil Nadu and the Managing Director of the companies attended the meeting. The

views expressed by the members have been taken into consideration while finalising the review.

Audit findings are discussed in the succeeding paragraphs.

Sugarcane procurement

2.6 The State Government allots areas to each sugar mill for procurement of sugarcane. Sugar mills then have to enter into agreements with the ryots in these areas to ensure that they would get enough sugarcane from the registered areas to utilise their installed capacity in full.

Shortfall in sugarcane procurement

2.7 Based on the capacity of the mills and budgeted production, these mills arrive at the area required to be registered every year. The details of area required to be registered, area actually registered, sugarcane required to be procured and sugarcane procured are given below:

| | | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|--|---|----------|----------|----------|----------|----------|
| TAMIL NADU SUGAR CORPORATION LIMITED (AASM) | | | | | | |
| 1. | Area required (in acres) | 12,500 | 12,500 | 12,500 | 12,500 | 12,500 |
| 2. | Area actually registered (in acres) | 12,101 | 11,970 | 12,451 | 10,690 | 11,327 |
| 3. | Shortfall in area registration (in acres) | 399 | 530 | 49 | 1,810 | 1,173 |
| 4. | Sugarcane required (MT) | 4,30,000 | 4,30,000 | 4,30,000 | 4,30,000 | 4,30,000 |
| 5. | Sugarcane procured (MT) | 4,31,305 | 3,75,964 | 4,02,016 | 3,22,118 | 2,91,319 |
| 6. | Shortfall in sugarcane procurement (MT) | --- | 54,036 | 27,984 | 1,07,882 | 1,38,681 |
| 7. | Shortfall in percentage | | | | | |
| | (a) Area | 3.19 | 4.24 | 0.39 | 14.48 | 9.38 |
| | (b) Sugarcane procurement | --- | 12.57 | 6.51 | 25.09 | 32.25 |
| PERAMBALUR SUGAR MILLS (PSM) | | | | | | |
| 1. | Area required (in acres) | 16,000 | 16,000 | 16,000 | 16,000 | 16,000 |
| 2. | Area actually registered (in acres) | 15,277 | 15,382 | 15,724 | 7,715 | 10,421 |
| 3. | Shortfall in area registration (in acres) | 723 | 618 | 276 | 8,285 | 5,579 |
| 4. | Sugarcane required (MT) | 5,16,000 | 5,16,000 | 5,16,000 | 5,16,000 | 5,16,000 |
| 5. | Sugarcane procured (MT) | 4,67,480 | 4,38,268 | 3,51,480 | 1,33,917 | 2,75,711 |
| 6. | Shortfall in sugarcane procurement (MT) | 48,520 | 77,732 | 1,64,520 | 3,82,083 | 2,40,289 |
| 7. | Shortfall in percentage | | | | | |
| | (a) Area | 4.52 | 3.86 | 1.73 | 51.78 | 34.87 |
| | (b) Sugarcane procurement | 9.40 | 15.06 | 31.88 | 74.05 | 46.57 |

It may be seen that the shortfall in sugarcane procurement aggregated to 3.29 lakh MT and 9.13 lakh MT in AASM and PSM respectively during the five years ended 31 March 2005. Audit noticed that shortfall in area registered and sugarcane procured was due to inordinate delays in payment for the sugarcane procured in earlier seasons as discussed in paragraph 2.9 *infra*. Consequently, ryots were reluctant to enter into agreement for sale of sugarcane to these mills.

Despite the shortfall in sugarcane procurement, the mills diverted 50,214 MT of sugarcane received during the fag end of the season to other mills during the five years ended 31 March 2005. This indicates poor planning in sugarcane harvesting and cutting.

The Government stated (August 2005) that the private sugar mills have independent authority and were paying more than the Statutory Minimum Price (SMP) in addition to other incentives. Further, Public Sector sugar mills were not in a position to go beyond Government rules and regulations. The reply is not acceptable in view of the fact that the reluctance of the ryots to sell sugarcane to the mills was due to the inordinate delay in payment for sugarcane purchased, which affected the procurement since the ryots diverted their sugarcane produce to other sugar mills (2002-03 - 47,000 MT, 2003-04 - 56,000 MT).

Procurement of sugarcane beyond 30 kilometres

2.8 The transportation of sugarcane over long distance results in drying up of sugarcane, delayed crushing and reduction in sugar recovery percentage. In view of this, it is imperative for sugar mills to ensure sugarcane availability within a radius of 30 KMs and only under unavoidable circumstances, i.e., where availability could not be ensured, small areas could be registered beyond 30 KMs. Audit noticed that sugarcane procured from distances beyond 30 KMs was always more than 50 *per cent* of cane procured (which ranged from 52.11 to 58.45 *per cent*) during the five years ended 31 March 2005 in PSM. In respect of AASM, procurement of sugarcane from beyond 30 KMs ranged from 29.34 to 39.95 *per cent* of total sugarcane procurement during the same period. This also resulted in additional payment of transport subsidy as discussed in paragraph 2.9.3 *infra*.

Payment for sugarcane

2.9 Government of India (GOI) announces each year, the SMP payable for sugarcane procured. The SMP is computed based on the recovery rate of 8.5 *per cent*. Based on the actual recovery achieved in the peak period of the previous season and other factors like cost of raising, etc., the SMP payable by each mill is fixed. Over and above the SMP, the Government of Tamil Nadu had been announcing the State Advised Price (SAP) till 2000-01. SAP was higher compared to the SMP and was applicable only to the Co-operative and Public Sector sugar mills in the State. The private sugar mills paid only the SMP for the sugarcane procured by them.

In this connection, the following deserve mention:

2.9.1 There was inordinate delay in making payment for sugarcane procured, which ranged from eight to 16 months in AASM and 11 to 15 months in PSM.

Payment of the State Advised Price, which was more than the Statutory Minimum Price for sugarcane resulted in additional expenditure of Rs.16.62 crore.

2.9.2 The difference between the SAP and the SMP was not reimbursed by the State Government. The payment of the SAP cast an additional burden of Rs.12.58 crore on the finances of these sugar mills in 2000-01. Further, in order to pay the difference between the SMP and the SAP, these mills borrowed funds and incurred an expenditure of Rs.4.04 crore towards interest payment. This resulted in additional expenditure of Rs.16.62 crore in 2000-01.

Payment of subsidy for the sugarcane procured from distances beyond 10 KMs cast an additional burden of Rs.12.91 crore.

2.9.3 The Co-operative and Public Sector sugar mills in the State pay transport subsidy for the sugarcane procured from distances beyond 10 KMs in addition to the SMP. Though the SMP fixed by GOI clearly stipulated that the same was payable for the sugarcane received at the factory gate, these mills paid, in addition to the SMP, Rs.12.91 crore as transport subsidy for sugarcane procured from distances beyond 10 KMs. The Government stated (August 2005) that the transport subsidy for sugarcane procured from distances beyond 10 KMs was paid based on a circular issued by the Director of Sugar. The reply is not acceptable since this has put the Public Sector sugar mills at a disadvantage.

Production performance

2.10 Sugar is produced in sugar mills by a process called “Double Sulphitation” method. The sugarcane is crushed into fine fibrous material and juice extracted. Bagasse generated during the crushing process is used as “Boiler Fuel”. Sugarcane juice is then heated to 65° to 70° in the boilers and subjected to simultaneous liming and sulphitation. At the end of the process, brilliant juice at the top is concentrated in multiple effect evaporators to make syrup. This is bleached and then boiled. The boiled syrup is cured in the three masecuite system to get sugar. The irregularities noticed in audit are discussed in the succeeding paragraphs.

Budget Vs actual production

2.11 The sugar mills prepare a production budget every year. Budgeted production vis-a-vis actual production for the five years ended 31 March 2005 in the two mills was as follows:

| Year | Budgeted sugar production (quintal) | Actual sugar production (quintal) | Shortfall in sugar production (quintal) |
|--|--|--|--|
| TAMIL NADU SUGAR CORPORATION LIMITED (AASM) | | | |
| 2000-01 | 3,69,194 | 3,74,236 | --- |
| 2001-02 | 4,47,358 | 3,38,824 | 1,08,534 |
| 2002-03 | 4,55,170 | 4,02,646 | 52,524 |
| 2003-04 | 4,18,135 | 3,74,875 | 43,260 |
| 2004-05 | 3,81,210 | 3,25,765 | 55,445 |

| Year | Budgeted sugar production (quintal) | Actual sugar production (quintal) | Shortfall in sugar production (quintal) |
|---|-------------------------------------|-----------------------------------|---|
| PERAMBALUR SUGAR MILLS LIMITED (PSM) | | | |
| 2000-01 | 4,36,833 | 4,25,376 | 11,457 |
| 2001-02 | 5,42,000 | 4,32,360 | 1,09,640 |
| 2002-03 | 5,62,476 | 4,44,441 | 1,18,035 |
| 2003-04 | 2,75,757 | 2,17,896 | 57,861 |
| 2004-05 | 2,95,000 | 2,77,128 | 17,872 |

Failure to achieve the budgeted production led to a contribution loss of Rs.7.56 crore.

It may be seen that the two mills could not achieve the budgeted production during the last five years (except in 2000-01 by AASM). The budgeted targets were reduced in 2003-04 and 2004-05; even these were also not achieved. This was mainly due to non-procurement of the required quantity of sugarcane as discussed in paragraph 2.7 *supra*. Failure to achieve the budgeted production resulted in contribution* loss of Rs.7.56 crore during the last five years.

The Government stated (August 2005) that the budget was only an estimate for production and that the mills could not achieve the target due to multifarious reasons like delay in sugarcane payment in the previous year, delayed monsoon, outbreak of disease, interference of private sugar mills, etc.

The reply is not acceptable as the main reason for the shortfall in sugarcane procurement was the delayed payment for sugarcane procured during earlier seasons as indicated in paragraph 2.9.1 *supra*.

Sugarcane crushing

2.12 The details of budgeted sugarcane crushing rate and the actual crushing rate achieved during the last five years are given in the following table:

| Year | Budgeted crushing rate (TCD) | Actual crushing rate (TCD) | Shortfall in crushing rate (TCD) | Actual crushing days | Loss in sugarcane crushing (MT) | Recovery rate (In per cent) | Loss in sugar production (quintal) |
|--|------------------------------|----------------------------|----------------------------------|----------------------|---------------------------------|-----------------------------|------------------------------------|
| TAMIL NADU SUGAR CORPORATION LIMITED (AASM) | | | | | | | |
| 2000-01 | 2,341 | 2,369 | --- | 187 | --- | --- | --- |
| 2001-02 | 2,506 | 2,340 | 166 | 166 | 27,556 | 9.0 | 24,800 |
| 2002-03 | 2,500 | 2,340 | 160 | 163 | 26,080 | 9.6 | 25,037 |
| 2003-04 | 2,505 | 2,426 | 79 | 132 | 10,428 | 10.1 | 10,532 |
| 2004-05 | 2,479 | 2,397 | 82 | 127 | 10,414 | 10.32 | 10,747 |

* Contribution per quintal is arrived at by deducting variable cost from the sales realisation.

| Year | Budgeted crushing rate (TCD) | Actual crushing rate (TCD) | Shortfall in crushing rate (TCD) | Actual crushing days | Loss in sugarcane crushing (MT) | Recovery rate (In per cent) | Loss in sugar production (quintal) |
|---|------------------------------|----------------------------|----------------------------------|----------------------|---------------------------------|-----------------------------|------------------------------------|
| PERAMBALUR SUGAR MILLS LIMITED (PSM) | | | | | | | |
| 2000-01 | 3,008 | 2,847 | 161 | 174 | 28,014 | 9.78 | 27,398 |
| 2001-02 | 3,001 | 2,750 | 251 | 166 | 41,666 | 9.82 | 40,916 |
| 2002-03 | 3,000 | 2,716 | 284 | 133 | 37,772 | 10.24 | 38,678 |
| 2003-04 | 2,900 | 2,086 | 814 | 72 | 58,608 | 10.64 | 62,359 |
| 2004-05 | 2,750 | 2,294 | 456 | 127 | 57,912 | 10.05 | 58,201 |

Non-achievement of budgeted sugarcane crushing rate resulted in contribution loss of Rs.5.88 crore.

From the above table, it could be seen that loss in sugarcane crushing due to the shortfall in crushing rate ranged from 10,414 MT to 27,556 MT in AASM and from 28,014 MT to 58,608 MT in PSM during the last five years ended 31 March 2005. This resulted in loss in sugar production ranging from 10,532 quintals to 25,037 quintals in AASM and from 27,398 quintals to 62,359 quintals in PSM; which led to a contribution loss of Rs.5.88 crore in these two mills during the above period.

The Government noted (August 2005) the audit observation for future guidance.

Production hours

2.13 The Committee on Public Undertakings (COPU) in its 168th Report (April 1994) recommended that suitable norms should be fixed for the permissible loss of crushing hours, after a thorough analysis of all aspects and also taking into consideration the situation obtaining in the mills in the private/co-operative sector. The Committee also recommended that all efforts should be made to keep the loss of crushing hours within that norm so as to attain the break even level of production in AASM and PSM.

As a follow-up, the Public Sector sugar mills prescribed eight *per cent* of available hours as permissible time loss. Audit noticed that:

- the actual loss of production hours for various reasons during the five years ended 31 March 2005 ranged from 8.40 *per cent* to 13.45 *per cent* in AASM and from 11.38 *per cent* to 16.59 *per cent* in PSM as given in the **Annexure-9**.
- due to their failure to keep the production hours lost within the norms, the two mills suffered contribution loss of Rs.2.73 crore.

Loss of production hours over norms led to a contribution loss of Rs.2.73 crore.

Further audit analysis revealed the following:

Availability of sugarcane

2.14.1 There should be no loss of production due to non-availability of sugarcane in an ideal situation; norm of two *per cent* was, however, kept for

such a situation. Production hours lost due to non-availability of sugarcane were 1.72 to 6.95 per cent in AASM and 0.57 to 10.38 per cent in PSM.

The loss of hours due to non-availability of sugarcane was in excess of the norms in AASM during all the years except 2002-03; while in PSM it was much in excess of norms during 2003-04 and 2004-05. The loss was mainly due to shortage of sugarcane registered and diversion of sugarcane as already discussed.

Engineering

2.14.2 Loss of hours due to engineering reasons was higher than the norm in both the mills till 2002-03. PSM had consistently lost production hours due to persistent boiler/turbine troubles during the years 2000-01 to 2002-03. Despite incurring huge expenditure on repairs and maintenance, as discussed in paragraph 2.19 *infra*, the loss of production hours remained high.

The Government stated (August 2005) that the boilers were very old and this was attributed as the reason for loss of production hours.

Utilities

2.15 The major utilities involved in the production of sugar are bagasse (fuel for raising steam), steam (for rotating the turbines to generate power and also for use in the process for producing sugar) and power. Bagasse is obtained as a by-product during the crushing of sugarcane. The sugar mills have five boilers (three in AASM and two in PSM) wherein steam is produced by using bagasse as fuel. Sixty per cent of steam produced is used for power production by operation of turbines while balance steam is used in the process.

Consumption of bagasse

2.16 As per sugar industry norms, for production of one MT of steam, quantity of bagasse (fuel) required is 0.5 MT. The details of steam produced, bagasse consumed and excess consumption over norms are given in the following table:

| Sl. No. | | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|--|---|----------|----------|----------|----------|----------|
| TAMIL NADU SUGAR CORPORATION LIMITED (AASM) | | | | | | |
| 1. | Steam produced (MT) | 2,15,446 | 1,94,618 | 2,06,956 | 1,79,978 | 1,41,708 |
| 2. | Bagasse required (MT) (one tonne bagasse = two tonne of steam) | 1,07,723 | 97,309 | 1,03,478 | 89,989 | 70,854 |
| 3. | Bagasse used (MT) | 1,09,380 | 99,989 | 1,01,047 | 75,149 | 70,917 |
| 4. | Excess bagasse used (MT) | 1,657 | 2,680 | NIL | NIL | 63 |
| 5. | Selling rate of bagasse per tonne (Rupees) | 407 | 512 | 695 | 734 | 750 |
| 6. | Revenue loss (Rupees in lakh) | 6.74 | 13.73 | --- | --- | 0.47 |

| Sl. No. | | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|-------------------------------------|---|----------|----------|----------|----------|----------|
| PERAMBALUR SUGAR MILLS (PSM) | | | | | | |
| 1. | Steam produced (MT) | 2,19,674 | 2,40,805 | 2,39,745 | 1,19,354 | 1,50,076 |
| 2. | Bagasse required (MT) (one tonne bagasse = two tonne of steam) | 1,09,837 | 1,20,403 | 1,19,873 | 59,677 | 75,038 |
| 3. | Bagasse used (MT) | 1,23,045 | 1,25,904 | 1,27,417 | 61,518 | 76,967 |
| 4. | Excess bagasse used (MT) | 13,208 | 5,501 | 7,544 | 1,841 | 1,929 |
| 5. | Selling rate of bagasse per tonne (Rupees) | 407 | 421 | 725 | 682 | 1,225 |
| 6. | Revenue loss (Rupees in lakh) | 53.76 | 23.16 | 54.69 | 12.56 | 23.63 |

Excess consumption of bagasse over norms resulted in revenue loss of Rs.1.89 crore.

From the table, it could be seen that the two mills incurred revenue loss of Rs.1.89 crore during the five years ended 31 March 2005 due to excess consumption of bagasse over norms.

The Company stated (May 2005) that excess consumption of bagasse was due to lower rate of crushing to suit the sugarcane arrival, teething problems faced at the time of installation of swing type hammer, fibriser and breakdown and that steps would be taken to minimise bagasse consumption.

Consumption of steam

2.17 As already stated, these mills generate in house power using bagasse as fuel in the boiler. As per norms, for generation of 75 units of power, one tonne of steam is to be utilised. The details of power generated and steam used during the five years ended 31 March 2005 are given in **Annexure-10**.

Consumption of steam in excess of norm resulted in extra expenditure of Rs.2.62 crore.

It could be seen from the **Annexure**, that the consumption of steam has always (except in 2001-02 for TASC0) been more than the norm prescribed. This resulted in extra expenditure of Rs.2.62 crore during the five years ended 31 March 2005.

The Government stated (August 2005) that the steam produced in the boilers was used for generation of power in the turbine and the exhaust steam from the turbine was used for processing of sugar. The Government also stated that the mills had taken steps to install steam inflow meters. The reply is not acceptable, as the excess consumption has been worked out after taking into account the fact that only 60 *per cent* of steam production was utilised for power generation.

Consumption of power

2.18 For the production of sugar, these mills use power generated with bagasse as the fuel and for the balance requirement, power is purchased from Tamil Nadu Electricity Board. The norm for consumption of power in sugar production is 21 units per tonne of sugarcane crushed. The details of actual

Consumption of Power in excess of the norm resulted in extra expenditure of Rs.1.48 crore.

power consumed by these mills during the five years ended 31 March 2005 are given in **Annexure-11**.

The consumption of power in excess of the norm resulted in extra expenditure of Rs.1.48 crore during the five years ended 31 March 2005.

TASCO stated (March 2005) that computed with reference to the norm of 21 units per tonne of sugarcane crushed and after excluding non-factory and non-seasonal consumption, there was no excess consumption of power. The reply is not tenable, as the norm of 21 units had been fixed after taking into account all these factors.

PSM stated (May 2005) that the consumption of power over the norms was due to frequent breakdowns and insufficient sugarcane availability. The reply is not acceptable in view of the fact that both these reasons were avoidable.

Repairs and maintenance expenditure

2.19 As per the industry norms, repairs and maintenance expenditure should be at Rs.30 per MT of sugarcane crushed. The actual expenditure incurred by these mills was always more than the norm as indicated below:

| Year | Sugarcane crushed (In MT) | | Actual maintenance expenditure per tonne of sugarcane crushed (Rupees per MT) | | Excess expenditure over the norm (Rupees per MT) | | Extra expenditure on repairs and maintenance over the norm (Rupees) | |
|---------|---------------------------|----------|---|-------|--|-------|---|-----------|
| | TASCO (AASM) | PSM | TASCO (AASM) | PSM | TASCO (AASM) | PSM | TASCO (AASM) | PSM |
| 2000-01 | 4,11,133 | 4,34,774 | 31.40 | 38.26 | 1.40 | 8.26 | 5,75,586 | 35,91,233 |
| 2001-02 | 3,76,230 | 4,40,060 | 37.85 | 37.71 | 7.85 | 7.71 | 29,53,445 | 33,92,863 |
| 2002-03 | 4,19,479 | 4,34,038 | 32.40 | 42.87 | 2.40 | 12.87 | 10,06,750 | 55,86,069 |
| 2003-04 | 3,71,063 | 2,04,788 | 39.78 | 37.12 | 9.78 | 7.12 | 36,28,996 | 14,58,091 |
| 2004-05 | 2,91,319 | 2,75,711 | 46.83 | 21.15 | 16.83 | --- | 49,02,899 | --- |

This resulted in extra expenditure of Rs.2.71 crore. The main reason for high repairs and maintenance expenditure, as analysed in audit, is overaged machinery, which are long overdue for replacement. The Company accepted (May 2005) the facts.

Other factors

2.20 The other major factors which affected the operational performance of these companies were as follows:

- The average sales realization per quintal of sugar under both levy and free sale sugar quota was always less than the cost of production (except for realization from free sale sugar quota by TASCO in 2004-05).
- The average sales realization per quintal of free sale sugar obtained by both the mills during the five years ended 31 March 2005 was always less than the All India and State realisation.

- During the three years ended 31 March 2005, the mills could not sell 65,411 quintals of sugar valued at Rs.8.30 crore within the permissible time, resulting in the lapsing of the release order and consequent interest loss of Rs.2.39 crore on the blocked funds.
- The two mills held an average inventory of 5,71,860 quintals of sugar valued at Rs.69.27 crore, representing eight months' sales. Due to non-receipt of release orders from Government of India, the mills incurred an inventory carrying cost of Rs.10.39 crore per annum.
- The companies have not been able to reduce the staff strength. Failures to do so have deprived these companies of annual savings of Rs.1.25 crore.
- These companies have been engaging casual labourers in spite of having excess staff strength and incurred Rs.1.51 crore on this account during the four years ending 31 March 2004.
- The State Government banned (May 2001) export of molasses to other States to ensure availability of sufficient quantity to local Indian Made Foreign Liquor (IMFL) units but suggested a review once the stock position of molasses was comfortable. The companies have not sought review of such ban so far (September 2005) in spite of comfortable molasses stock position prevailing in the State.

Conclusion

The operational performance of the two sugar mills was adversely affected due to shortfall in the procurement of sugarcane, which was attributable to the inordinate delay in making payment for the sugarcane procured; the State Government's directives for the payment of the State Advised Price (which was more than the Statutory Minimum Price fixed by the Government of India) and transport subsidy to the sugarcane growers by the State Public Sector sugar mills cast an additional financial burden on the companies. The companies failed to achieve the budgeted production; low crushing rate and loss of production hours more than the norms resulted in loss of contribution. The consumption of bagasse, steam and power was more than the norms. The companies were burdened with huge inventory and consequent inventory carrying cost due to non-receipt of release orders from the Government of India.

Recommendations

- **The companies need to take effective steps to increase the procurement of sugarcane to ensure that the installed capacity for sugarcane crushing is utilised in full.**
- **The State Government should reimburse the extra financial burden borne by these companies on payment of the State Advised Price and transport subsidy.**
- **The companies need to take steps to strictly adhere to the norms for loss of production hours and consumption of bagasse, steam and power**