

Unrealistic Assumptions: Bijayananda Co-operative Sugar Mill

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Abstract

The case is about a Sugar Mill which suffers from the problem of underutilization of capacity. While setting up a sugar mill in 1995 with a 2500 TPD crushing capacity, Ponni Sugars and Chemical Ltd (PSCL) now known as Bijayananda Co-operative Sugar Mill (BCSM), banked heavily on the assumption that it would be able to get about 5,00,000 MT of sugar cane per annum by mobilizing sufficient number of farmers to go in for sugarcane farming. However, after 4 years, the new sugar mill became economically unviable due to low capacity utilisation. In 2004, the sugar mill was seized and transferred under the SARFAESI Act of 2002 to a Self-Help Cooperative known as Bijayananda Co-operative Sugar Mill (BCSM), Balangir. However, history repeated yet again and the unit suffered heavy losses due to dismal capacity utilization of around 10%. Finally, BCSM was seized by its financier i.e. Odisha State Cooperative Bank and the unit closed down in 2014. This case study is meant to introduce the participants to the concept of how over-optimism and failure to recognize the key issues make the business enterprise unviable. Even experienced entrepreneurs fall a prey to over-optimism. The case study also suggests how change in management and ownership structure of an enterprise would never compensate for the failure in identifying and the addressing the core issues.

Key words: *Feedstock, mobilizing farmers, self-help cooperative, capacity utilisation, management.*

Introduction:

The proposed revival of the closed Bijayananda Cooperative Sugar mill at Sagarpalli in Balangir earlier known as Ponni Sugar and Chemicals Ltd. hangs in balance as Odisha government has initiated the process for auction of the mill.

In 2018, the State Cooperative department had issued a notice inviting applications for auction of the movable and immovable properties of the sugar mill. The sugar mill has been lying closed since 2014, a year after being declared insolvent due to an outstanding loan of Rs. 52 crores. The

closure of the sugar mill has left 300 employees of the mill unemployed and over 7000 sugarcane farmers, traders and transporters have lost their livelihood.

The auction notice has dimmed the hopes of the employees and sugarcane farmers as it is uncertain if the firm acquiring the sugar mill would choose to make it operational. They wonder as to who will evince interest in taking over a Rs. 11 crores sugar mill (the price at which it was bought by the previous owner) with a debt of Rs. 52 crores. Moreover, the acquiring firm would take its time to make the mill operational preceded by an advance plan for providing incentives to sugarcane farmers for carrying out cultivation and buying agricultural implements.

The sugar mill was established in 1993, over 86.49 acres of land near Sagarpali in Balangir by a Tamil Nadu based firm, Ponni Sugar and Chemical Limited with a project cost of Rs. 45 crores. The mill ran for six years before being shut down by the promoters in the year 2000 citing heavy financial loss. The mill's creditor, ICICI bank, took over the possession of the mill. In 2004, the mill was taken over under Orissa Self-Help Cooperatives Act, 2001 at the initiative of

a senior political leader Jagneshwar Babu at a price of Rs. 11 crores.

The mill began functioning as a self-help cooperative under the new name of Bijayananda Cooperative Sugar Mill Ltd. A capital of Rs. 11 crores was injected into the flailing company out of which Rs.5 crore were provided by the Western Orissa Development Council (WODC). However, during the tenure of the new management between 2005-2013, the mill borrowed an additional Rs. 38.46 crore from the Orissa State Cooperative Bank, and Rs. 2.48 crore from Indian Overseas Bank. The total outstanding including interest was now over Rs. 52 crores after the authorities failed to repay the loan.

The State government acquired the sugar mill in 2013 and made it operational with an investment of Rs.1.20 crore. The mill ran for three months during which the state government, by selling the manufactured sugar, settled the dues of the employees, sugarcane farmers and the electricity bills. However, the mill was closed in 2014.

Background of the Company:

History: Ponni Sugar was the brainchild of late S. Viswanathan, a renowned

industrialist of the Tamil Nadu. He also set up the Erode sugar mill in Tamil Nadu in 1984 with 1250 tonnes per day (TPD) crushing capacity. It achieved full capacity utilization during the very first year of its successful commercial operation. This is a record in the annals of sugar industry. Its capacity was expanded to 2500 TCD in 1994. In the same year, a company with the name Ponni Sugars and Chemicals (PSCL) was incorporated.

Ponni Sugars (Erode) Ltd and Ponni Sugar (Odisha) Ltd were an offspring of Ponni Sugars and Chemicals (PSCL) under a demerger Scheme in September 2001. In terms of the scheme, Ponni Sugars (Erode) Ltd took over the business of Erode undertaking with concurrent transfer of major part of stakeholders' interest in PSCL and Ponni Sugar (Odisha) Ltd. took over the management of Odisha operation.

In the current year (2019) the shares of Ponni Sugars (Erode) Ltd are actively traded in both NSE and BSE.

Ponni Sugar in Odisha: Ponni Sugar and Chemicals Ltd started its business operation in the Bargarh district of Odisha by taking over the management contract of a sick cooperative sugar mill named as Bargarh Cooperative Sugar Mills (BCSM)

in August 1991. BCSML had an installed crushing capacity of 1250 tonnes per day. The operational viability of BCSM was restored in the year 1991-92 i.e. in the first year of takeover. While the maximum cane crushing by the cooperative mill during its previous 17 years of existence of BCSM had never exceeded 71,000 tonnes, the Ponni Sugar established a crushing record of 1.30 lakh tonnes during 1991-92 in the first year of its operation. Under the management contract with BCSM It was agreed by Ponni Sugar to pay a fixed royalty of Rs. 6.00 lakh per annum in first three years from 1991 and then Rs. 89.5 lakhs to BCSML for the next 7 years.

Setting up of the Balangir plant:

Encouraged by the initial success in 1994, Ponni Sugar Chemicals Ltd (PSCL) decided to set up a new sugar mill at Sagarpali village in Balangir district of Odisha with a project cost of Rs. 45.00 crores. The capacity of the plant was 2500 TPD. The requirement of sugarcane for the new sugar mill was approximately 5.00 lakh tonnes per annum by taking a standard crushing period of 170 days per annum. The proposed mill site was 100 km from BCSML. As mentioned earlier the BCSM was also under management contract of Ponni Sugar and Chemicals Ltd. from 1991.

Main reasons for setting of the Plan in Balangir: The main reasons for setting of the plant as mentioned in the Detail Project Report (DPR) of Ponni Sugar Ltd. were:

- Bright prospects of development of sugarcane cultivation in the area by motivating local farmers. There was a lot of optimism among the promoters (PSCM) that there would be threefold increase in the area under sugarcane cultivation to match the mill requirement of 5.00 lakh tonnes.
- Geographically widely dispersed sugar mills of Odisha¹ were also another reason for setting up of the plant at Balangir. No sugar mill was closer than 100 km to PMCL (see **Exhibits 1 and 2**).
- Ease of licensing from the Odisha government.
- 30% of the sugarcane requirement could be procured within a 40 kms distance of the plant. An area 3529 acres was already under sugarcane cultivation in the immediate neighborhood i.e. within 40 km of the PSML (DPR, PSCL 1992) (see

¹ Orissa became officially known as Odisha in the year 2011.

Exhibit 3). The rest of the requirement of sugarcane could be sourced from nearby districts and mainly from expansion of sugarcane cultivation in the district of Balangir.

- Balangir district lies in the watershed basin of two main rivers i.e. Mahanadi and Thel. Development of irrigation project, i.e. lower Indra and lower Suktel was imminent. The irrigation profile of the district is shown in **Exhibit 4** is as follows in 1992-93.

The unit started commercial production from 1995 but had a capacity utilization of 25% to 37%. Due to low capacity utilization and difficulties in procuring the required amount of sugarcane, the unit started incurring losses. Finally, because of the accumulated heavy losses PSCL had to stop the crushing of sugarcane from the year 2001.

From a Dream to a Nightmare:

Some of the main reasons Ponni Sugar ran into losses are as follows.

Lower capacity utilisation of 25 to 37%:

The sugar mill had a crushing capacity of 2500 MT per day. Thus, considering the standard operation time of 170 days (170 days is the standard crushing period as per

Indian standards) of a sugar mill, more than 5.00 lakh MT of sugarcane per annum was required for continuous operations. Attributing the reasons for the PSCL project failure Mr. Gopala Ratnam, an executive of the company said “that these were primarily due to the local conditions, particularly the farmers' lack of enthusiasm, which resulted in the mill continuously facing low capacity utilisation. Sugarcane availability was around 1.0 lakh to 1.5 lakh tons against the required levels of about 5.00 lakh tons”.

Issues in irrigation: The much-expected irrigation from the proposed irrigation projects i.e. lower Indra and lower Suktel could not be completed in the scheduled time that is by 1999. Irrigation for the crops is a substantial cost in sugarcane cultivation. This was expected to be facilitated by the sugar mill. But this was not available making irrigation costlier for farmers. (Orissa University of Agriculture and Technology, 2015)

Investment in inputs: Farmers had to invest in inputs such as seeds, fertilizer, wages and irrigation for sugar cultivation which was difficult for farmers with small holdings. Instead farmers preferred to go for the traditional cultivation of paddy. Small and Marginal farmers comprised of

more than 50% of the total farmers in the district out of the 3,59,724 farming families (**Exhibit 6**).

Long gestation period for harvesting of sugarcane: Farmers lacked enthusiasm to cultivate more of sugarcane as they had to wait for a period for more than one year for harvesting. The traditional farmers of Odisha have a very less threshold for risk.

Not connected to sugar mill: Farmers did not feel connected to the sugar mill and perceived a kind of risk in going for sugarcane farming. The hand-holding support from the sugar mill was not available to the sugarcane farmers.

Language problem: Since the promoters were from Tamil Nadu, language was also a problem between the management and the sugarcane farmers. This created a missing link between the farmers and management of the mill. As a result of this the promoters failed to motivate the farmers to go for sugarcane farming.

The Demerger:

Beholding a bleak future in the face of mounting losses and difficulties in operation of the plant at Balangir, Ponnis Sugars and Chemicals (PSCL), strategized

a demerger plan in September 2001. Under the demerger scheme, PSCL's Erode plant was to be known as Ponni Sugar (Erode) Ltd and the Balangir Mill known as Ponni Sugar (Orissa) Ltd. In the demerger that followed, more than 60% of the long-term debt was transferred to the Erode unit and only 40% was left with Orissa. In 2001, in the post-demerger scenario, Ponni Sugars (Orissa) Ltd had debts to the tune of Rs. 20 crore bearing an interest of 15%.

Formation of Bijayananda Cooperative Sugar mills Ltd. (BCSML):

Ponni Sugar (Orissa) Ltd. had to bring down its shutter in the early part of 2001 due to adverse financial condition and debts. Bijayananda Cooperative Sugar Mills Ltd. (BCSML) a self-help Cooperative registered under Odisha Self Help Cooperative Act 2001 purchased the assets of Ponni Sugar Ltd in February 2005 from ICICI Bank, Chennai. The purchase was made possible under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act, 2002) for a price of Rs. 11.00 crores. After taking over the unit, BCSML started its operation from the crushing season of 2005. However, over the next 7 years, the capacity utilisation in terms of crushing of sugarcane was abysmally low

due to limited availability of sugarcane in the area. The crushing of sugarcane by BCSML could never reach the levels under that of the previous management as shown in **Exhibit 7**.

After abolition of 'Self Help Cooperative Act, 2001' by an ordinance on 6th June, 2013, BCSML was taken over by Government of Odisha. The new management of the Mill was formed under Cooperative Act, 1962. For the last time, BCSML had crushed 36,628 Tons of sugar cane in the in the FY 2013-14. The loan burden of the sugar mill was about Rs. 40 crores in 2013, out of which a substantial part of the loan i.e. Rs. 38.46 Crores was financed by Odisha State Cooperative Bank Limited (OSCBL). Though the State government wanted to revive the plant but nothing has happened so far. The process of disinvestment of Sugar Mill has been initiated by OSCL in 2016 to recover their dues. But nothing has happened as buyers for the sugar mill have not shown any serious interest.

Losses in Bijayananda Co-operative Sugar Mill:

The main reasons for loss were almost similar as those suffered by Ponni Sugars. Further, an additional reason was the inexperience of the new ownership. It

was also observed that the new entrepreneur (BCSML) had no previous experience of running a sugar mill. The CEO of the company was essentially a political leader leading the cooperative movement with no experience in sugar business.

Closure of the Mill and the Journey Afterwards:

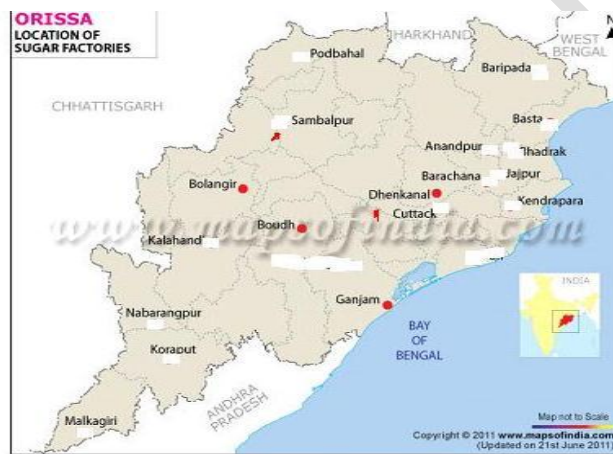
After the seizure of the mill by the State-owned bank (OSCB), the unit was

closed in 2014. Though it is known to all stake holders that a sugar mill can be a prime mover of the rural economy but hope for revival of the mill is bleak unless the basic problem of sufficient quantity of feedstock is ensured. This needs huge investment, a long-range planning and a good amount of business sense. But the biggest challenge is, can it be really be addressed?

Exhibit 1: Distances of other sugar mills from Ponnı Sugar Mills.

Location of Sugar Mill	Distance in Kms
Aska	300 km
Jeypore	200 km.
Baramba	350 km
Nayagarh	185km
Baragarh	100 Km.

Source: *Project Report, PSML (1993)*

Exhibit 2: Map of Odisha depicting the location of Sugar Factories**Exhibit 3: Area of land under sugarcane cultivation in Balangir district when Plant was set up**

Year	Area in acres
1990-91	9022
1991-92	8096

Exhibit 4: Area of Land under Different Sources of Irrigation

Source of Irrigation	Area in hectares
Major irrigation (Hirakud canal)	43548
Minor Irrigation Project	17576
Lift Irrigation Project	3333
Dugwell	17410
Other sources	29919
Total	111786

Source: *Project Report, PSML (1993)*

Exhibit 5: Amount of Sugarcane crushed by Ponni Sugars and Chemicals Ltd.

Year	in lakh metric tonnes
1995-96	1.59
1996- 97	1.02
1997-98	1.01
1998-99	0.90
1999-2001	1.5

Source: *Cooperative Department, Govt. of Odisha and District Statistical Handbook, 2011*

Exhibit 6: Farmer Profile in Balangir District

Type of Farmer	Numbers	Percentage
Small Farmers	86,390	24.02
Marginal Farmers	1,11,818	31.08
Big Farmers	1,61,516	44.90

Source: *Agricultural statistics, Government of Odisha (1991-92)*

Exhibit 7: Sugarcane crushing under BCSML

Year	Sugarcane crushing
2004- 05	19,700 MT
2005-06	30,497 MT
2006-07	56,248 MT
2007-08	55,905 MT
2008-09	16,544 MT
2009-10	11,888 MT
2010-11	54108 MT

Source: *Cooperative Department, Govt. of Odisha and District Statistical Handbook, 2011.*

Exhibit 8: Out-standing Loans of BCSML in Crore

Year ending March	State Cooperative Bank	IOB Bank	UCO Bank
2004-05	9.62	-	
2005-06	12.93	-	
2006- 07	10.29	3.00	6.11
2007-08	8.24	3.04	5.82
2015 -16	42.11*	3.00	-

(*Case filed by State Cooperative bank with claim of Rs. 48 Crores having Principal of Rs. 36.99 crore and Interest component of 11.01 crore)
Source: OSCBL, Bhubaneswar.

Exhibit 9: Chronology of Events

Year	Events
1991	Management contract of Baragarh Cooperative Sugar Mills (BCSM) by Ponni Sugar and Chemicals Ltd (Odisha) Ltd.
1994	Setting of a sugar mill of 2500 TPD crushing capacity by Ponni Sugar and Chemicals Ltd in the Balangir district of Odisha.
2001	Demerger – Ponni Sugars and Chemicals (PSCL), went for a demerger plan. Under the demerger scheme which PSCL's Erode plant would be known as Ponni Sugar (Erode) Ltd and the Balangir Mill would be known as Ponni Sugar (Orissa) Ltd.
2001	Closure of Ponni Sugar (Orissa) Ltd.
2005	BCSML) a self-Help Cooperative registered under Odisha Self Help Cooperative Act 2001 purchased the assets of PonniSugar (Orissa) Ltd on 02.02.2005 from ICICI Bank, Chennai under the SARFAESI Act, 2002 for a consideration amount of Rs. 11.00 crores.
2013	Government of Odisha took over Ponni Sugar (Orissa) Ltd. on abolition of Self -Help Cooperative Act, 2001 and a new cooperative formed under Cooperative Act, 1962 and the management is entrusted on Collector, Balangir.
2014	Cooperation Department, Govt. of Odisha initiated the disinvestment process. But no real breakthrough has taken place yet.

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