

# Headache for Akhilesh govt as denial of working capital to hit crushing operations

## Banks to shun Uttar Pradesh sugar mills after Supreme Court order

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**S**UGAR mills in Uttar Pradesh are staring at the prospect of being denied working capital finance by banks, following a recent Supreme Court ruling that cane payment dues to growers would receive priority over the claims of secured creditors.

The ruling, endorsing an earlier Allahabad High Court order of September 5, raises a huge question mark on mills being able to start crushing for the new 2014-15 sugar season (October-September) in less than a month from now.

That isn't good news for the state's Samajwadi Party government under Akhilesh Yadav, already facing flak for not ensuring payments worth over Rs 3,000 crore by private mills to growers against cane bought last season.

"Our industry is highly working capital-dependent, as we crush only for about five months (from mid-November to mid-April) whereas the sugar produced gets sold over

### CANE PAYMENT DUES

FOR 2013-14 SEASON (₹ CRORE)\*

COMPANY/GROUP	SAP VALUE OF CANE (1)	PAYMENT MADE (2)	ARREARS (1-2)
Bajaj Hindusthan	3,267.01	2,389.48	877.52
Mawana Sugars	708.31	241.69	466.62
UK Modi	472.50	108.31	364.19
Simbhaoli Sugars	607.84	384.92	222.91
KK Birla	1,046.27	870.48	175.79
Triveni Engineering	1,296.53	1,126.59	169.94
Dhampur Sugar	1,129.89	977.98	151.91
<b>TOTAL PRIVATE MILLS</b>	<b>17,366.35</b>	<b>14,359.28</b>	<b>3,007.07</b>

\*POSITION AS ON OCTOBER 7.

13-14 months. Without bank finance, we cannot procure the cane to undertake crushing operations," said Deepak Gupta, secretary, UP Sugar Mills Association.

Banks, on their part, have held that their lending interests stand jeopardised by the latest judgement.

"We lend against the security of the sugar produced or to be produced by the mills. While banks are supposed to have the first charge over the sugar stocks pledged in their favour, this judgement holds that the dues of cane growers, which are in the nature of an unsecured claim, would pre-

vail over the rights of secured creditors," the head of a top public sector bank, who sought anonymity, told *The Indian Express*.

The main lenders to UP's sugar industry include State Bank of India, Punjab National Bank, HDFC Bank and Axis Bank.

Banks usually lend up to 85 per cent of the value of mills' stocks. 85 per cent of the advance received, in turn, goes towards cane payments and the balance for workers' salaries, chemicals, gunny bags, repairs and maintenance of machinery, etc. Thus, on an ex-factory

sugar realisation of Rs 30 per kg, mills can obtain working capital of Rs 25.5 per kg, of which Rs 21.7 would finance cane purchases.

Mills enter into financing arrangements with banks by early-November when they submit their working capital requirement projections based on the likely quantity of cane to be crushed, average sugar recovery and price realisations. "Banks seem rather apprehensive about lending this time, more so after the recent order," noted Gupta.

The banker quoted earlier, however, said that the court judgment was only the last straw, as the state government's policy of fixing cane prices had made lending to the industry unviable in any case:

"Last year, we lent on the expectation that a high-level committee under the chief secretary would come out with a clear formula of linking cane price to sugar realisations on the lines of the Rangarajan panel's recommendations. There's no sign of that happening either."

TM Bhasin, chairman, Indian Banks Association, said that banks were waiting for

more data on the UP sugar industry before taking a final call on lending.

Millers claim that at the current State Advised Price (SAP) of Rs 280 a quintal and 9.2 per cent recovery, the cost of cane alone in sugar is about Rs 30.4 per kg. Adding other costs takes the total to Rs 35 a kg, as against ex-factory realisations that are under Rs 29 now. "Even if we get working capital on the value of our stocks today, it will not finance even basic cane costs," they say.

In the event of no working capital from banks, mills are left with the option of buying cane on credit from growers at zero interest and paying from sugar sales over time — which is what many of them effectively did last year.

While private millers in UP purchased cane worth Rs 17,366 crore at the SAP value, they are yet to pay Rs 3,007 crore of that even as crushing for 2014-15 is set to begin. Some — the UK Modi group and Mawana Sugars, which did not have any banking arrangements — have discharged hardly a third of the cane payments dues to growers for 2013-14.

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