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INCENTIVE SCHEME FOR NEW SUGAR FACTORIES AND EXPANSION PROJECTS

Introduction

The Government have formulated "Sugar Incentive Scheme, 1997 (Letter Number F.3(4)/89-PC/Vol.IV, dated February 28, 1997)" to provide for incentive to help entrepreneurs in setting up expeditiously new and additional capacity for manufacture of sugar on the basis of Letters of Intent / Industrial Licenses issued after 31.03.1994. The salient features of the scheme are detailed below:-

1. Categories Of Eligible Factories

For the purpose of this Incentive Scheme, eligible sugar factories shall be categorized here as under:-

New Sugar Factory:

New factory shall mean a sugar factory established for the first time by erection of a new standard sugar plant in accordance with a Letter of Intent / Industrial License issued by the Government of India, Ministry of Industry, under Section 11(1) of the Industries (Development & Regulations) Act, 1951.

- i. Having the Minimum Economic Capacity of 2500 TCD.
- ii. Having the Minimum Capacity of 1750 TCD established in an area declared as Industrially Backward by the Government of India, Ministry of Industry.

Expansion Project:

- i. Expansion Project shall mean a project for expansion of an existing sugar factory having a capacity
 - a. below 2,500 TCD, for increasing its capacity to a minimum level of 2,500 TCD and
 - b. below 5,000 TCD but not less than 2,500 TCD, for increasing its capacity up to a level of 5,000 TCD in accordance with a Letter of Intent/Industrial License issued by the Government of India, Ministry of Industry, under Section 13(1) of the

Industries (Development & Regulation) Act, 1951 and shall also include such expansions covered under Press Note No. 15 issued by the Ministry of Industry on 27.05.1986.

- ii. A project for expansion of an existing sugar factory having capacity of 1,250 TCD and above, for increasing its capacity to a level of not less than 1,750 TCD but below 2,500 TCD in accordance with a Letter of Intent/Industrial License issued by the Government of India, Ministry of Industry, under Section 13(1) (d) of the Industries (Development & Regulation) Act, 1951, provided such unit had not availed of any incentive in the past.

2. Applicability Of The Schemes

- i. The Incentive Scheme shall be applicable to the sugar factories to whom Letters of Intent / Industrial Licenses have been issued to the new units and expansion units including those sanctioned after March'1994.
- ii. The sugar factories which have been issued Letters of Intent / Industrial Licenses during the period 07.09.1990 to 31.03.1994 will have an option to avail of incentive under 1993 Incentive Scheme or the incentive now being proposed in this Scheme, subject to the condition that the same are implemented by 31.12.1999.

3. Classification Of Recovery Area

For the purpose of incentive scheme, country has been classified into two recovery areas - High Recovery Area and Other Recovery Area, based on the analysis of recovery of sugar for the five year period ending 1993-94. High Recovery Area shall mean sugar producing zones with an average recovery of 10% and above. Other Recovery Areas shall mean sugar producing zones with average recovery of less than 10%. The zone falling under these two areas are as follows:-

- a. High Recovery Area : South Gujarat, Maharashtra and North West Karnataka.

Note : - South Gujarat comprises Districts of Surat, Valsad, Dang and Broach in Gujarat State.

- b. Other Recovery Area : Area other than those mentioned at (a) above.

4. Time Limit For Commencement Of Production

With a view to ensure that Letters of Intent do not remain unimplemented over a long period of time, a time frame of 3 years for implementation of Letters of Intent has been stipulated.

Accordingly, in order to become eligible for Incentive under this scheme, the date of commencement of production for the first time in respect of new sugar factories and the date of commencement of production at the expanded capacity in respect of expansion projects, shall be within a period of 3 years from the issue of Letter of Intent / Industrial License, whichever is applicable.

5. Efficiency Norms To Be Achieved For Entitlement To Full Incentives

All categories of sugar factories covered under this scheme and found eligible for incentives, shall achieve technical norms of efficiency as given in Appendix –I by the end of the second year of operation for being entitled to full incentives. Where a factory fails to achieve the norms as stipulated in Appendix-I, its incentive entitlement for that year shall be reduced in a graded manner as per details in Appendix-II, subject to a ceiling of 5%.

6. Nature Of Incentives

The incentives under the scheme shall be only in the shape of higher percentages of freesale quota including the normal freesale quota of sugar, in accordance with the scales indicated in paras 7.3 and 9 below in respect of different categories of sugar factories.

7. Incentive In Respect Of New Sugar Factories

1. For eligibility to incentives under this scheme, the basic cost of plant and machinery plus excise and custom duties shall not be below Rs. 1,588 lakhs. In case of new sugar factories having minimum capacity of not less than 1750 TCD but below 2500 TCD established in areas declared as industrially backward by the Government of India, Ministry of Industry, for eligibility to incentive, the basic cost of plant and machinery plus excise and custom duties shall not be below Rs. 941 lakhs.
2. The basic cost of plant and machinery for the purpose of this scheme shall mean the actual cost on F.O.R. (Machinery Manufacturer's Works) basis.
3. The freesale entitlement of sugar, including normal quota and incentives shall be at percentages as given below for High Recovery Areas and Other Recovery Areas :-

Incentive Freesale Sugar

Year	High Recovery	Other Recovery
	Areas	Areas
	(%)	(%)
1 st	100	100
2 nd	100	100
3 rd	100	100
4 th	100	100
5 th	100	100
6 th	--	100
7 th	--	100
8 th	--	100

4. Incentive free sale quantum shall be applicable on the actual production of sugar in a sugar season subject to an annual ceiling of 50,000 tonnes in High Recovery Area and 44,000 tonnes in Other Recovery Area.

8. Incentives In Respect Of Expansion Projects

For eligibility of incentives for the projects defined under Clause 2(b) (i) & (ii) under this scheme, the basic cost of plant and machinery of the expansion project up to 2500 TCD shall not be below Rs. 595 lakhs on the F.O.R. basis and Rs. 1190 lakhs for expansion projects up to 5000 TCD. These costs will be inclusive of excise and custom duties.

9. Percentage Of Free Sale Entitlement For Expansion Projects

- Free sale entitlement of sugar including normal quota and incentives shall be at percentages as given below for High Recovery Areas (HRA) and Other Recovery Areas (ORA):-

Year	Incentive Freesale Sugar			
	Up to 2,500 TCD		More than 2,500 TCD up to 5,000 TCD	
	HRA	ORA	HRA	ORA
1st	85	100	80	90
2nd	85	100	80	90
3rd	85	100	80	90
4th	85	100	80	90
5th	85	100	80	90

- The higher free sale quota of sugar at percentages as mentioned above, shall be reckoned on that much of production in a sugar season which is in excess of the average production during the three sugar seasons preceding the season in which production was first Commenced at the expanded capacity, where cane crushing period was less than three sugar seasons prior to completion of expansion, the average of the actual period of crushing would be reckoned as the base.
- The ceilings for the purpose of incentives on expansion up to 2500 TCD would be 25000 tonnes for HRA and 22,000 tonnes for ORA respectively. For expansion more than 2500 TCD up to 5000 TCD, the ceiling would be 50,000 tonnes in case of HRA and 44,000 tonnes in case of ORA respectively. These ceilings for expansion projects should be with respect to excess production which qualifies for incentives.
- All expansion projects that qualify for incentives as per the terms and conditions stipulated herein, shall be granted incentives irrespective of the fact that they had already availed of one incentive either as a new factory or expansion project under earlier incentive scheme.
- Factories which are availing of incentives under earlier scheme and undertake further expansion and thereby become eligible for incentives under this scheme, shall also be eligible for incentives under this scheme for full term under para 10.1

from the year (Sugar season) in which they complete such further expansion. In respect of expansion projects undertaken by sugar factories which are already availing of incentives as a new unit under the 1987/1988/1993 schemes (s), the incentives under the said scheme (s) as a new unit shall run concurrently with the incentives derivable under this scheme for expansion during the over-lapping period. The percentages of free-sale sugar by way of incentives under the 1987/1988/1993 scheme (s) as a new unit would apply on the "base production" which shall be the average production of three sugar seasons prior to the commencement of production at the expanded capacity.

10. **Obligation Of Entrepreneurs For Submission Of Utilisation Certificate**

The beneficiaries of the incentive scheme shall ensure that the surplus funds generated through sale of the incentive sugar are utilized for the repayment of term loans, if any, outstanding from the Central Financial Institutions/Sugar Development Fund. The sugar factories shall submit utilization certificate annually from a Chartered/Cost **Accountant** holding certificate of practice. Utilisation certificate in respect of each sugar season during the incentive period shall be furnished as per Performa prescribed on or before the 31st December of the succeeding year. Failure to submit utilization certificate within the stipulated time may result not only in the termination of release of incentive free sale quota but also in the recovery of the incentive free sale already made by resorting to adjustment from the free sale releases of future years.

11. **Efficiency Norms Details**

Within 45 days of the close of crushing during the season, sugar factories shall submit details of actual efficiency achieved in such Performa as may be prescribed by the Directorate of Sugar, Krishi Bhawan, New Delhi, for adjustment/modification of the incentive quota, as may be required under para 5.

12. **Furnishing Of Data For Verification**

New sugar factories and expansion projects which are eligible for incentives under this scheme may, on completion of their projects, furnish to the Chief Directorate (Sugar), Krishi Bhawan, New Delhi, all the relevant information and documents in such forms/annexure as may be prescribed by the Government for Verification of their entitlement.

APPENDIX-I

EFFICIENCY LEVELS TO BE ACHIEVED FOR ENTITLEMENT TO FULL INCENTIVE.

Items	Expansion (Including Restructuring Projects)	New Factories
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Reduced Mill Extraction (RME) (Minimum)	94%	95%
Reduced Boiling House Recovery (RBHR) (Minimum)	90%	90%
Total Sugar loss percent cane (Maximum)	2.2%	2.0%
Steam percent cane (Maximum)	55%	50%
Down Time		
(a) Including general cleaning (Maximum)	10%	10%
(b) Excluding general cleaning (Maximum)	4.5%	4.5%

APPENDIX-II**QUANTUM OF REDUCTION IN INCENTIVE FOR FAILURE TO ACHIEVE EFFICIENCY NORMS**

Items	Expansions (Including Restructured Projects)		New Factories	
	Level Of Achievement (%)	Scale Of Reduction (% Of Freesale Quota)	Level Of Achievement (%)	Scale Of Reduction (% Of Freesale Quota)
Reduced Mill Extraction	Below 92	1	Below 93	1
	92 & above but below 94	0.5	93 & above but below 95	0.5
Reduced Boiling House Recovery	Below 88	1	Below 88	1
	88 & above but below 90	0.5	88 & above but below 90	0.5
Total sugar Loss	2.5 & above	1	2.3 & above	1
	above 2.2 but below 2.5	0.5	above 2 but below 2.3	0.5

Steam	Above 57	1	Above 53	1
percent				
cane	Above 55 but below 57	0.5	Above 50 but below 53	0.5
Down	More than 15	1	More than 15	1
time				
including				
general	Above 10 but	0.5	Above 10 but	0.5
cleaning	below 15		below 15	

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