



NORTHEAST NOW

Is the problem of McLeod Russel tip of iceberg for tea industry in Assam?

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It was hardly a few days more than a couple of months ago when I came out with an article on the imminent problems to the tea industry in Assam.

In the article which was published on May 18, 2021 in this esteemed news portal, I pointed out some of the key problems faced and some of the very serious problems likely to emerge threatening the very survival of the [tea industry](#) in Assam.

I have already dwelt sufficiently on the relevant statistics as to how the state's economy is dependent on the state's tea industry- may that be employment or, generation of more taxes to the state's exchequer through the improvement of profit margins of the tea companies which at the same time will channelize further expansion of business of those concerns in Assam.

The main theme of the business is to earn profit. That holds good even in case of public utility concerns also not to speak of all others.

Mine is a professional background both academically as well as with practical experience in professional domains, which enabled me to put forward my observations. I was really impressed when having taken over the charge, the current state ministry in Assam expressed its interest in industrial turnaround in the state.

Instead of brooding over the past which I experienced by then, I was really happy to have known the interest for industrial growth in the state expressed by the government.

But at the same time, I expressed in no uncertain terms that what mattered most for enjoying the state's economic turnaround was proper execution of planning and control of the negative deviations in performances by the government, if the government was really sincere about such an epoch-making drive in the state's economy.

In the context of the tea industry in the state, I pointed out how growing cost of production without any meaningful moves for rationalization of the tea manufacturing companies, and their resultant failure to hold on to the existing domestic market not to speak of any further

extension being stumbled across, would be perilous not only for the tea industry but for the state's economy also.

A business concern may be a going concern provided the interests of all the stakeholders are properly taken care of.

Equity shareholders require dividends, the loan extending financial institutions require the refund of principal amounts and interests thereon without giving rise to any NPA and the suppliers require timely payments for their supplies.

The government requires more and more profits and enhancement of volumes of sales of the manufacturing concerns for ensuring more and more taxes and also at the same time ground for insisting on the expansion of business which does a great job towards alleviation of growing menace of unemployment and discharging some other social responsibilities, etc. to cite a few only.

Yes, that the well-being of the employees must be a very predominant consideration, is not an over-emphasization.

But all of them center around the financial health of the business concern, because its collapse will push all the stakeholders into resultant perils with the only difference of the extents of sufferings because of the orderliness of preferences in settlement of the financial obligations consequent on facing insolvency by the business entity.

A recently published news that India's largest tea producer McLeod Russel faces bankruptcy, if authentic, may signify a big blow to Assam's tea industry.

That the National Company Law Tribunal (NCLT), New Delhi Bench more than a week ago, admitted an application for initiating a corporate insolvency resolution process (CIRP) against McLeod Russel India, the largest bulk tea producer in the country is a very unpleasant news for the state's economy.

Hence, my endeavour here will be to dwell mainly on the tea industry in the state once again without much repetition with an intention of creating a leeway for their financial turnaround. True, they are not running their businesses for the sake of doing charity and there is a limit of toleration of financial unsoundness.

As I have already mentioned, in this era when even the public utility concerns aim at earning profits, why will any manufacturing company go on sustaining losses?

Has the state government thought of the consequences on different stakeholders including invariably on the existing employees who will be rendered jobless, if the said insolvency as prayed for, comes into being?

In my already published article on the tea industry in Assam as mentioned herein-above, I also dwelt on some of the major problems faced by the tea companies in [Assam](#). Today it has happened in case of McLeod Russel, that tomorrow the same fate will happen to some other companies, to me, is quite inevitable if the problems do not find meaningful solutions because of the major problems that the tea manufacturing companies are facing in our state, are almost identical.

I am not interested in doing any repetition regarding the solutions that I considered plausible as regards some of the major problems those tea manufacturing companies are facing very acutely.

That the tea industry in Assam is looking at the government desperately is my perception now but at the same time no government statement I have found till now as to its outlook towards revamping the tea estates even under the Assam Tea Corporation if at all the corporation still boasts of having any tea garden with symptoms of viability, under it.

Now, the imminent problems threatening the viability of the tea gardens in Assam have really demanded serious consideration for expeditious actions. Almost all the manufacturing units are understood to have been suffering from the problem of low productivity but at the same time increase in production without cost-effectiveness is likely to be a tyranny instead.

For the sake of doing justice to the business entity itself not to speak of the stakeholders, unless that problem is remedied, more and more pain will be inevitable to all those entities in the days to come.

However, government apathy is being observed in the entire industrial sector in the state and for instance, switching over a bit to another sector, namely the power sector in the state, it has been observed that the government is convinced that power tariff hike is unavoidable for viability of all the three companies entrusted with production, distribution and revenue collection.

In one of my already published articles, I emphasized the dealing with the mismanagements alleged to have been prevailing in those companies and the necessity of squaring up the amounts due, some of which even in bulk from various government departments, and, only thereafter on making consideration if power tariff hike was sine qua non.

However, while I dwelt on it, I did not fall short of appreciating the government for taking steps for ensuring collections from the other consumers absolutely up-to-date.

Now even with greater emphasis, I can tell that if the government actions are not changed, not only that in near future private sector power companies will make inroads into Assam but so long, those companies under the government of Assam go ahead with their operation, only the law obeying consumers will have to bear the brunt of increasing financial woes on them due to negligence of the other factors as I have already mentioned.

The act of staying away from the real problems in the industrial sector, to me, is the most imperative factor of the state's industrial backwardness.

The tea market for the tea gardens is a buyer's market. For the premium products, the market is very narrow.

After all, the fate of the tea industry will be decided considerably by the ultimate consumers for their greater negotiation capability. With the increase in production costs, an indispensable increase in prices of the output will surely disturb the volumes of sales.

The most beneficial results that the consumers can expect from private sector operation are improvement of service and prevalence of competitive price of the output.

But the most remarkable feature of the private sector operation, which I have been dwelling on almost in all of my articles encompassing private sector operation is the companies under that sector will put maximum emphasis on increase in productivity keeping no extra manpower as may be determined by their professional management.

Resultantly, the average cost of production is expected to be quite reasonable, the advantage of which is passed on to the ultimate consumers besides improving upon their own financial positions. That holds good in all the sectors of production irrespective of whether an entity produces goods or services.

For industrial progress, both government and private investments are of most significant importance.

As I have already mentioned, as regards price fixation for the final product, the tea industry is very much dependent on the consumers and hence except for marginal increases with reasonable gaps of time as the competition may allow, frequent revisions of prices will adversely affect demands in the market thus affecting production volumes.

Whatever may be the nature of problem, may that be serious drought situation or too much rain, power problems, poor transportation facility, lack of proper storage facility, pest problems, and probability of increasing taxes by the government, etc. affecting production volumes to mention a few only, the major solution is lying in making financial soundness of the tea-producing entities to enable them to do investment by themselves as much as they can.

I do not think that in the area of a tea garden's operation in the garden areas such as plucking tea leaves, pruning the tea plants, and cleaning the gardens, etc. there are vast scopes for further rationalization. In the shop floor area, there may be scopes for further modernization but vis-à-vis the number of employees to be rendered surplus, the replacement benefits with cost of capital for the purpose will have to be compared.

Therefore, being the most serious consideration, I put major emphasis on the tea industry's financial soundness so that most of the other problems can be sorted out with favourable liquidity out of financial soundness.

The major tea companies and together with that the small tea growers vouch for average daily employment of more than 6 lakh persons in the state which is around 50% of the total average daily number of labour employed by tea industry in the country.

Even excluding Barak valley, as revealed by the statistics that the Government of Assam came out with, in 14 surveyed districts of Brahmaputra valley the total number of small growers was 68465, and the total area of land under tea cultivation of small growers was 117 thousand acres within which there were plots of land earlier used for paddy cultivation, patta lands and government lands also.

The same report of the Government of Assam went on mentioning that whereas 59717 small gardens were having holding size of less than 3 acres per garden only 380 small gardens were having holding size of 15 acres or more a garden. But most unfortunate is that the average price fetched by a kg of green leaf did not exceed Rs.13/- and without sharing formula as per TMCO guidelines, the price was fixed at the mercy of the big factories.

These all regarding the small growers in Assam are as per the Government of Assam Industries & Commerce portal.

Now with no convincing steps of the government for the furtherance of industrialization in sight, if the going-on concerns face closure, what will be the condition of the state's economy can be easily understood.

To me, the tea industry in the state is in the ICU; unless the gravity of the situation is understood and remedial actions taken, the outcome will further impoverish the state's economy in rapid strides. If any tea manufacturing company becomes insolvent, what will be the fate of the dependent small tea gardens and all those dependent on those small tea gardens, has the government thought of that?

But I must mention unequivocally that what matters very much is the levels of efficiency of those tea manufacturing companies also because inefficient management expedites a company's turmoil and that i.e., inefficiency in managements, seems to be gaining wide grounds in Assam.

I am not inclined to do much deliberation on the performances of the tea companies operating in Assam for the very reason that the position of most of them being within the negative territory of financial performances. There seems to be no sign of undertaking positive steps for revamping the other ailing industrial concerns not to speak of an already noticed lackadaisical attitude towards setting up any new industrial concerns.

Urgent steps are required for drastic improvement of the financial positions of the tea manufacturing companies.

A constant pursuit of areas of scopes for furtherance of modernization ensuring more production and productivity with cost effectiveness, and, deployment of proper numbers with requisite qualities of manpower ensuring more production and productivity by resorting to all possible vistas of austerity measures, making sure at the same time that the quality of the product is also not disturbed, will be the proper steps for setting a positive trend in the course of motion.

I fear that failure to recognize the current problems and their degrees of seriousness in the tea industry in particular in view of the reported insolvency proceeding of McLeod Russel and the entire industrial sector in the state in general, consequential inaction may not take much time in doing great erosion in the state's economy.

In spite of all these, we must be ready to accept that for private sector companies, the most imperative necessity is of the presence of professionally competent managements, even though at the same time the government policies must also be congenial for their growth.

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