

Financial Restructuring Of Kushtia Sugar Mills: A Capital Market Approach To Debt Elimination And Modernization

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ABSTRACT

Kushtia Sugar Mills Limited, a state-owned enterprise in Bangladesh, faces severe financial distress primarily driven by compounding debt servicing costs. This paper proposes a strategic financial restructuring model through a 49% equity divestment on the capital market. By leveraging its asset base of BDT 21.50 billion to raise BDT 10.00 billion, the mill can eliminate its BDT 3.75 billion banking debt, invest BDT 2.00 billion in modernization to achieve operational break-even, and deploy a BDT 4.25 billion capital reserve. Financial projections indicate that this strategy will eliminate BDT 500–600 million in annual interest expenses and generate BDT 400 million in risk-free interest income, effectively transforming a chronic loss-making entity into a BDT 220 million profitable venture.

Keywords: State-Owned Enterprises (SOEs); Financial Restructuring; Capital Market Divestment; Debt Liquidation; Capital Expenditure (CapEx); Sugar Industry of Bangladesh; Corporate Governance.

INTRODUCTION

State-owned sugar mills in Bangladesh play a vital role in rural economics and import substitution. However, operational inefficiencies and capital constraints heavily burden these institutions. The economic burden and chronic losses of nationalized agricultural industries have prompted intense debate regarding structural state-owned enterprise (SOE) reforms in South Asia (Rahman & Khan, 2023). Kushtia Sugar Mills Limited exemplifies this crisis, where high finance costs choke operational viability. This article evaluates a structural transition from debt-heavy financing to capital market equity participation.

2. Current Financial Profile and Problem Statement

The financial structure of Kushtia Sugar Mills is highly leveraged and unsustainable. The total asset valuation stands at BDT 21.50 billion, balanced against an outstanding bank debt of BDT 3.75 billion. The current financial trap is dominated by high bank interest rates rather than operational expenditures. This creates an unsustainable debt spiral that guarantees net losses despite baseline production capabilities.

3. The Proposed Capital Market Restructuring Model

To correct this imbalance, the government can divest a 49% minority stake through an Initial Public Offering (IPO) or direct listing, retaining a 51% controlling interest. Partial privatization through capital market listings allows state firms to raise non-debt liabilities while maintaining state oversight (Megginson & Netter, 2001). Given the mill's substantial asset base, a 49% equity offering is conservatively valued to raise BDT 10.00 billion. This capital injection eliminates dependency on government bailouts while preserving public sector management control.

4. Financial Impact and Profitability Projections

The restructuring plan redistributes the raised capital to optimize the income statement through three distinct phases:

4.1. Debt Elimination and Expense Reduction

Allocating BDT 3.75 billion to completely liquidate outstanding bank loans removes the mill's primary liability. By shifting from high-interest banking debt to a clean equity structure, firms dramatically reduce

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their weighted average cost of capital (WACC) and avoid debt-induced distress (Myers, 2001). This deleveraging saves BDT 500 million to BDT 600 million annually in interest expenses, immediately improving cash flow margins.

4.2. Capital Expenditure (CapEx) for Operational Break-Even

Investing BDT 2.00 billion into technological modernization, machinery upgrades, and byproduct diversification (such as co-generation and bio-ethanol) will optimize the crushing rate and sugar recovery ratio. This capital injection reduces per-ton production costs, moving factory operations to a financial break-even point.

4.3. Capital Reserve and Fixed Income Generation

The remaining BDT 4.25 billion will be placed into low-risk, fixed-income financial instruments (e.g.,

government treasury bonds or fixed deposits). At a conservative annual yield, this reserve will generate BDT 400 million in stable interest income. After fully absorbing residual operational variances, this non-operating revenue covers old deficits and yields a net profit of approximately BDT 220 million per annum.

5. Policy Implications and Conclusion

Privatizing minority stakes in state-owned enterprises offers a scalable solution for industrial revival without draining the national exchequer. For Kushtia Sugar Mills, shifting from bank debt to capital market equity eliminates crippling interest payments, funds vital modernization, and creates a permanent income-generating safety net. This restructuring framework offers a viable blueprint for turning distressed state assets into profitable, self-sustaining enterprises.

Financial Component	Current Framework (BDT)	Proposed Post-IPO (BDT)	Strategic Impact & Notes
Total Asset Base	21.50 Billion	21.50 Billion	Asset value backed by land remains intact.
State Ownership (Equity)	100% (Fully State-Owned)	51% (Controlling Stake)	Government retains management control.
Public Float (Market Equity)	0%	49% (Divested Stake)	Generates BDT 10.00 Billion in capital.
Outstanding Bank Debt	3.75 Billion	0.00	Complete debt liquidation removes liabilities.
Annual Interest Expense	500–600 Million	0.00	Instant savings improve net profit margins.
Capital Reinvestment	Zero / Capital Starved	2.00 Billion	Dedicated to factory automation/modernization.
Retained Liquid Reserves	0.00	4.25 Billion	Placed in low-risk financial bonds/instruments.
Annual Non-Operating Income	0.00	400 Million	Risk-free yield generated by the reserve.
Operational Performance	Chronic Financial Loss	Break-Even Point	Upgraded machinery stops operational cash drain.

Final Net Financial Output	Net Structural Loss	~220 Million Profit	Non-operating yield delivers net surplus.
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Table 1: Comparative Financial Restructuring Balance Matrix (Current vs. Proposed)

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