CHAPTER I
PROBLEMS OF TEXTILE INDUSTRY

1.1 INTRODUCTION

1.11 The textile industry, apart from being one of the oldest, occupies a premier position on the industrial map of India. Its sales turnover constitutes nearly 20% of the gross value of the country's total industrial production in the 80's. It occupies second position coming next to agriculture. Besides it also provides gainful employment to over 20% of the industrial workers and meets the essential clothing needs of the people.

1.12 The textile industry, comprises of two sectors, i.e. the organized sector or 'Composite' mill sector with 282 mills having installed capacity of over 120 lakh spindles and 2 lakh looms, producing 3411 million metres of cloth and 1586 kgs. of yarn. This sector provides employment to about one million workers.

1.13 The second category is the decentralised sector which includes powerloom, handloom and khadi sectors. The khadi sector incorporates 6 million hand operated spindles, while powerloom incorporates .6 million authorised (.14 million unauthorised) and 3.7 million handlooms. Together
the decentralised sector employs nearly 11 million people (some on part time basis) and produces 9016 million metres of cloth. The share of this sector in the production of the textile industry which was below 25% in the early fifties went up to over 50% in the late seventies and is at present around 75%. Thus the decentralised sector has come to occupy the premier position in the industry.

1.14 The objective of this chapter is to identify, discuss and review the problems of textile industry in general. For the purpose of this study, the definition of textile industry means organised sector which is generally known as composite mill sector or cotton mills.

1.2 SICKNESS IN THE INDUSTRY

1.21 The Reserve Bank of India has defined a sick unit as one which has incurred cash losses for one year and, in the judgment of the banks, is likely to continue to incur cash losses for the current year as well as the following year, and which has an imbalance in its financial structure, such as current ratio of less than 1:1 and worsening debt-equity ratio (total outside liabilities to net worth).
1.22 Financial institutions consider a unit as sick if it has sustained cash losses continuously over a period of at least the last two years and the accumulated losses as per the latest available balance sheet exceed 50% of its paid up capital plus reserve.

1.23 It was in 1951 that 150 mills in textile industry were identified as sick. In 1976, the Government nationalised 105 sick mills and brought them under the control of National Textile Corporation (NTC). To this list a number of mills were added in later years. In addition to this many of the mills are closed down every year or merged with successful units. As per the Mill Owners Association, Bombay in 1976 30 mills were closed. In 1977 apart from the NTC mills the nationalised banks declared 73 textile units as sick which increased to 94 in June 1981. In 1983 the Government announced the take over of 13 Bombay mills by an ordinance. A survey of Small Scale Industry (SSI) units carried out in 1976-77 by the Reserve Bank of India (RBI) identified 62% of powerloom units as sick characterised by their financially unsatisfactory performance. This shows that sickness is a phenomenon of not only the organised sector but also that of the unorganised sector as well.
1.24 The sickness of the textile units defined above is not restricted to any given geographical location but is found all over the country. Also it is found in small as well as big units. For e.g. in Andhra Pradesh we have Ramgopal Mills (small) and Azam Jahi (medium). Gujarat - Kanti Cotton (small), Sarangpur I (big). Aryodhaya, Silver Cotton (small) etc. In Maharashtra we find Tata Mills (medium), Finlay, Kohinoor (big), Podar Elphinstone, etc. In Tamil Nadu we find Binny (big), Mettur Beardsell (big), Anglo French, etc.

1.25 As on 1986 there are 282 composite mills. Mostly concentrated in Gujarat (32%). followed by Maharashtra (28%), Tamil Nadu (9%) and U.P. (5%). Rest of them are below 5% level in each state.

1.26 The literature, both journalistic and research has received substantial attention on the sickness crises affecting the industry. It is thus a widely discussed topic. Various reasons/causes have been emerged. An RBI study (1979) of 378 sick units in the large and medium units showed the following causes of sickness:
a) Mismanagement/management deficiency, including diversion of funds, in-fighting, lack of marketing, etc. (52%)

b) Market recession (23%)

c) Faulty initial planning and other technical drawbacks (14%)

d) Labour trouble (2%)

e) Other reasons - power cuts, shortage of raw materials, etc. (9%)

1.27 In the textile industry some of the oft quoted reasons are:

Deceleration in the growth of demand
Lack of modernisation
Low profitability
Increase in cost of production
Government policies and controls
Competition

Now let us analyse each one in depth.

1.3 DECELERATION IN GROWTH OF DEMAND

1.31 The indicator used by most of the studies to identify is generally the per capita consumption of cloth which has been continuously on the decline since 1979. As against 16.85 metres in 1964 and 13.65 metres in 1979, the per capita off take declined to 12.08 metres in 1981. The position has since then further deteriorated. Currently, the per capita consumption is reported to be around 10.5 metres per annum.
1.32 In cotton textiles, the per capita off take of mill textiles which stood at 6.98 metres in 1975 declined to 3.94 metres in 1981. While in the case of the decentralised sector, the decline was only marginal from 5.74 metres in 1975 to 5.46 in 1981.

1.33 The decline in consumption is due to the long life/durability of the blended variety. However even if we put the durability of synthetic cloth at the maximum value of four times that of cotton cloth, we find that per capita consumption falls by 5.21% in 7 years as compared to a fall of 13.70% in the case of the unadjusted value. If the durability factor is taken as 2.1, which is assumed by many researchers, the consumption falls by 10.52% between 1970 and 1977 as compared to 13.52%. This suggests that the decline in the per capita consumption of cloth cannot be explained by the durability factor alone, though can explain significant part of the fall.

1.34 The decline in growth could be attributed to the change in fashion/life style. There has been a shift from wearing sarees/dhoties to dresses/pants. According to B.V. Iyer, the consumption by Han and

1 Shivaraj, B.L.R., 1984.
2 Chandrashekhar, C.P., ATREA, Unpublished.
3 B V Iyer, 1981
Women in 2000 A.D. will be as follows - 10 metres per year for man, 15 metres for woman and 5 metres for child. When a woman wears saree she consumes 5 - 6 metres for saree, 50 - 90 cms. of blouse piece, 2.5 metres for skirt against dress which comes to maximum of 6 metres. Similarly for men, pant consumption is 1.5 - 2 metres against 7 metres of dhoti. However this shift is mainly in urban areas. But it does bring down the rate of cloth consumption.

1.35 The decline in the offtake of domestic textiles has been compounded by imported man-made textiles which are coming into the country in a clandestine manner through smuggling, tourist traffic, misuse of replenishment licences, used fabrics, etc. It has high durability hence displaces the domestic textiles to that extent. At the 46th All India and the 3rd International Textile conference, held at Surat, on 1st December 1985 it was estimated that the smuggled textiles are to the tune of 2000 million metres costing about Rs.3000 crores per annum. However smuggling is a clandestine activity and therefore no reliable estimate of the quantity of synthetic textiles smuggled into the country is feasible. According to Shri. Janardhan Poojary, Minister of State in the Ministry of Finance, the value of synthetic fabrics seized by the customs
department which during 1983 was worth Rs.15 crores, went up to Rs.18 crores in 1984 and Rs.16 crores in 1985. The Indian Cotton Mills Federation (ICMF) estimated that almost one third of the domestic demand is taken away by the smuggled textiles.

1.36 As per the statistical outline of India 1984, the per capita national income in 1950-1951 from Rs.466 has gone up to Rs.745 at 70-71 prices in 1983-84. Out of 280 million workers, 252 million are employed in the unorganised sector, most of them are self-employed. Income by way of wages has gone up in the organised sector but the buying capacity of the other segments has declined due to inflation etc. Consumer durables like radios, transistors, bicycles, TV., sewing machines, mixers etc. have started competing for the "disposable income" of the consumers.

1.37 The decline in demand is due to low income elasticity demand. The income elasticity demand for cotton textiles is < 1. This means that the demand for textiles does not grow in the same proportion as the economic growth. So if economy grows, the demand will be less. With the increase in per capita national income, the demand for textiles is likely to get reduced. So, on account of many reasons, there has been a
marked decline in the demand for textiles.

1.4 LACK OF MODERNISATION

1.41 The growth in the rate of investment (at compounded rate) has declined from 8.59% in gross assets and 10.82% in net assets in the period from 1951-65 as compared to 2.29% and 3.97% respectively between 1965-75.

1.42 In 1979, India had the lowest proportion of automatic looms (21.9%) in comparison with other developed and developing countries e.g. Algeria (92.6%), Nigeria (73.5%), Egypt (80.9%), Mexico (83.7%), Brazil (49.4%), Hong Kong, Canada, U.S.A., South Korea, Philippines (100%), Indonesia (81.7%), Japan (39.4%).

1.43 Also the age structure of machinery in the industry indicates the slow rate of technical change. On the basis of a sample of 25% (111 mills) provided by the working party for the cotton textile industry which considered all machines installed before 1910 to be obsolete. Accordingly, in 1951 about 25% of Blow room machinery, more than 30% of carding equipment 20-36% of of drawing and interframes, over 20% spinning frames, 32-74% weaving preparatory.

1 & 2. B.V. IYER, 1981
1.52 It shows that as compared to all industries, profitability is low. The reason for low profitability is partly due to the fact that nearly 25% of the industry's output is from the NTC mills that are essentially loss making units.

1.53 Textile industry inspite of being labour oriented and capital intensive industry has very little profitability. Hence the mill owners did not invest money in the mills and allowed their condition to deteriorate. Even the small profits, instead of being invested in modernisation, were diverted into other sectors where returns were much higher. So, the diversion of the resources is the reason why the mills have become financially weak over the years.

1.6 INCREASE IN COST OF PRODUCTION

1.61 In the last two decades, raw material cost increased by 250% wages went up by 300% and energy costs rose by 320%. Despite this it is significant that the spinning and weaving production costs in India were the lowest. This was brought out by the cost comparison made by the International Textile Manufacturer's Federation between U.S.A. Germany, Brazil, Korea and India. The cost comparison showed that, even though our 'capital' and 'energy' cost were higher - both in absolute terms and as % of
the manufacturing costs, by 30% and 60% respectively as compared to U.S.A.. "Wage costs" which is about one fourth of U.S.A.. tilted the balance in favour of India.

1.7 COMPETITION

1.71 Between 1972 and 1983, the loom age of the decentralised powerloom industry went up by three times. The impact of this phenomenal growth has been totally unfavourable to the composite mill industry. From the modest share of 21.4% of handloom and powerloom sector in 1951 of the total cotton cloth production the share has increased to 75% in 1986. Their cost of production is low as compared to the mill sector, hence they compete with the mills very effectively. In addition to this, Government gives additional incentives in terms of excise concessions, exemptions and many Government controls do not apply to them. As a result they have become more and more competitive.

1.72 The decentralised sector purchases yarn from spinning mills and after weaving it, and sells it. So, the competition is mainly in the weaving segment as against spinning and processing. However, in weaving segment they compete against the mill sector in all the varieties.