CHAPTER VI

SUMMARY OF FINDINGS AND IMPLICATIONS

THE FOCUS OF THE STUDY

The focus of the study is on understanding the phenomenon of growth, survival and sickness in a traditional industry which in an overall sense has tended to stagnate and decline, but where there have been instances of some exemplary mills which have deviated from this overall trend and have faced the growing sickness in the industry with strength, resilience and resourcefulness. Though the thesis tries to understand the factors that led to sickness and mortality in most cases, the main emphasis of the study is to understand the factors that were responsible for survival and growth in a general environment of decay. For analytical purposes, the policy and market environment have been taken as common and given; and an attempt has been made to study how the mills have varied their response patterns through the use of different strategies to combat the environment and survive profitably. An attempt was made to overcome the limitations of financial statements by taking into consideration inferences based on extensive interviews of mill managements, senior staff and people connected with the industry.

THE POLICY AND MARKET ENVIRONMENT

* Upto the 1970s, the policy environment imposed deep pressures on the textile mill sector's operations. The policy interventions included controls over many things like raw materials, production and prices, licensing, exit, financing, custom, excise and other levies etc.

* The severe increases in the prices of factor costs also adversely affected the operations of the textile mills.
The high prices of cotton in India compared to some of our international competitors and the wide fluctuations in the prices and availability of cotton fibre coupled with its low quality have significantly contributed to the low profitability of the textile industry and to the uncompetitiveness of Indian exports in the international market.

The prices of various man-made fibres and filaments have been subjected to heavy excise duties rendering them three to five times the international prices and limiting their access to the market.

The Controlled Cloth Obligation and price controls on mill fabrics in the 1970s also contributed greatly to the sickness in the textile industries.

After 1976, the severity of the pressures from policy were eased slightly but those from factor costs increased sharply.

By the mid-seventies, the powerloom sector had already emerged as a powerful competitor to the mill sector, especially in cotton fabrics.

Though the aggregate domestic consumption of textiles in India increased, the output as well as the share of the mill sector in the total output kept on declining.

The trends in domestic consumption were towards higher value fabrics and towards blended and non-cotton varieties, but the market-segment for very high-priced fabrics was very narrow.

The growth in consumption of fabrics was much higher in the urban rather than the rural areas. While the output as well as share of cotton fabrics decreased, that of blended and non-cotton fabrics increased significantly.
Though the mills tried to adopt a strategy of producing high value fabrics for survival, they were hampered by the price-competition from the powerlooms in the low and medium-priced varieties and the narrow market segment for high-priced varieties. The few mills which could enter this market segment in the early years became firmly entrenched and they formed effective entry barriers for the late entrants.

In general, exports of the mill sector have been uncompetitive in the international markets, both as regards price and quality, with a few exceptions. India's share in world textile exports has been less than 2%.

Many of the weak mills in the organised sector were declared sick and taken over by the government. Many of the sick mills in the recent years have been declared sick under the provisions of the Sick Industrial Companies (special provisions) Act of 1985 and referred to the Board of Industrial and Financial Reconstruction.

The rest of the industry tried to combat the environmental forces by restructuring its capacity, output, and product-mix, by the use of automatic machinery and modern production technologies within financial and viability constraints and by subcontracting partially the weaving operations.

MACHINERY DEVELOPMENTS AND THEIR ADOPTION PROCESS IN INDIA

Mills have selectively used machinery of advanced or state-of-the-art technology. At the same time, conversion of machinery to an upgraded technology from the conventional type as well as additions of conventional machineries have also been undertaken. The reasons behind this phenomenon have been (i) financial constraints and (ii) the general techno-economic unviability of many of the modern production technologies (MPTs) under Indian economic conditions.
Mills had been modernising with the help of the Textile Development Fund and the Bills Rediscounting Scheme within their financial constraints even before the introduction of the Soft Loan Scheme. After its introduction, the approach to modernisation in many of the cases changed to one of planned, phased-out, large-scale machinery changes with long-range business goals. However, the former type of modernisation of machinery purchases of isolated, one-short nature has also continued.

Even as early as 1982, the modern production technologies like very high speed automatic and shuttle-less looms were proved to be economically viable only if the ex-mill prices of fabric woven on them exceeded Rs.12/ Mt. for the former and Rs.20/Mt. for the latter. The introduction of open-end spinning machinery has been fairly successful especially for the production of coarse and lower medium yarns.

International comparisons of yarn and fabric manufacturing costs with similar machines of latest technology show that India has lost its advantage of being one of the cheapest producer of fabrics to Korea even though wage rates are amongst the lowest in the textile world. Within India, costs of fabric production increased by nearly 110% in the decade 1979-1989 and raw-material costs as percentage of total costs fluctuated between 30% and 49% in the same period. Capital interest rates in India were much higher than countries like Japan, Germany, Korea and USA.

In general, the achievable levels of productivity with existing machinery in composite mills in India are higher than the existing levels, and there are very wide inter-mill differences in productivity.

THE AHMEDABAD COTTON TEXTILE INDUSTRY

The Ahmedabad textile industry is a 130 year old industry which has inherited a very small equity structure (Appendix 1), with
a majority of the mills being very old and having obsolete, run-down machinery. The average number of automatic looms as a percentage of installed looms computed for the closed mills upto 1985 was only 6.2%.

* Though initially the average size of the mills was much smaller compared to the Bombay mills due to financial and market constraints, many of the mills had gradually tried to expand their capacities until the ban on expansion of loomage was imposed by the government in 1956.

* Though the profits of World War I were ploughed back by the entrepreneurs of the mills towards the expansion of old mills and establishment of new mills, the high excess-profit tax levied by the British Government during World War II did not leave enough reserves to rehabilitate the worn out machinery, the prices of which had increased nearly four-fold and in any case was in acute shortage in the world markets.

* The Ahmedabad mills were set up to take advantage of the nearby markets, and the availability of cotton in Gujarat compared to the Bombay mills which were initiated for the purpose of exports. This was one of the main reasons for the smaller size of the Ahmedabad mills.

* The Ahmedabad mills had switched over to finer counts and to the production of more processed cloth much earlier than their Bombay counterparts; and many of the mills specialized in varieties which were later reserved for the decentralised sector.

* They also suffered from many locational disadvantages. Apart from the extremely dry climate which needed costly humidification, the Ahmedabad industry has always suffered from coal and power shortages. The costs of power and coal in Ahmedabad have been the highest in India. Moreover, the State Government levies and taxes on the textile industry have also been the highest in the country.
In 1990, only 34 mills in Ahmedabad were working, of which 21 were in the private sector, 6 were with the Gujarat State Textile Corporation (GSTC) and 7 under the National Textile Corporation (NTC). Seven other mills under GSTC were lying closed. Of the working mills, 13 had been declared sick under the Sick Industrial Companies (special provisions) Act, 1985, and referred to the Board of Industrial and Financial Reconstruction (BIFR).

The production of cloth in the Ahmedabad mills decreased drastically from 1015mn. mts. in 1975 to 799mn. mts. in 1980 and further to 597mn. mts. in 1985, though this was counterpoised by an increase in the production of blended and mixed varieties from 30.1mn. mts. in 1975 to 260.7mn. mts. in 1985. By 1985, the Ahmedabad mills produced as much as 35.5% of the total blended/mixed cloth in the organised sector.

Many of the surviving mills of Ahmedabad have been decreasing their weaving capacities, some of them drastically since 1985.

More than three-fourths of the total production of cloth has been in the higher medium varieties.


Fabrics like longcloth and shirtings accounted for three-fourths of the total varieties produced.

Exports accounted for only 2.5% to 6.5% of total cloth production of the mills until 1985. In 1988, many mills started exporting fabrics and exports rose to 8.6% of the cloth production.
* There has been a substantial increase in the processing capacity and the amount of processed cloth over the recent years.

* Marketing of yarn and fabrics has been mainly confined to distribution through the conventional channels, though attempts at decreasing the number of intermediaries have been made. Marketing in the real sense of the word has not yet been developed in most of the Ahmedabad mills.

* Data on modernisation is extremely meagre, but interviews reveal that there are wide differences in the extent of modernisation and the state of automation in the Ahmedabad mills as well as the productivity standards achieved by them.

THE FINDINGS OF THE SAMPLE MILLS

The Profile:

* The 32 sample mills accounted for 50% of the total installed spindleage and 51% of the total installed loomage of the 63 Ahmedabad composite mills in 1975. If we exclude the NTC mills, the coverage of the sample is even higher, at 59%.

* The sample consists of 15 surviving and 17 non-surviving mills. Of the surviving mills, 8 are good mills and 7 sick as per the Sick Industrial Companies (special provisions) Act, 1985.

* In most cases, the mills are being run by the third generation of the pioneers who established the industry after 1861. The mills were formerly run on the lines of the Managing Agency system until 1966 when it was abolished.

* The average age of the non-surviving mills was much higher than the surviving mills. Their average size was much smaller than the surviving mills, and so was the amount of automation. There was a similar difference between the good and sick mills within the surviving mills, but it was not very high.
* The average count of the fabrics produced by the surviving mills was higher than the non-surviving mills and higher for the good mills than the sick mills.

* In general, the surviving mills used a much higher percentage of synthetic fibres and filament than the non-surviving mills in their raw-material mix. The differences between the good and sick mills in this regard were not significant.

* For all the categories of mills, while average cloth production declined slightly over the period under observation, there was a manifold increase in yarn production for sales. (Figure 5.9 and 5.10).

* The average selling price realisation per metre of the surviving mills was higher than the non-surviving mills in 1975 and increased more sharply over the period. This was also reflected in the average net sales of the mills which were much higher for the surviving mills. The differences between the good and sick mills as regards average selling price per metre were not significant, but the average per loom net sales of the sick mills in the last period 1985-1990 fell sharply so that they were 20.6% lower than those of the good mills.

* In the period under observation, while the financial condition of the non-surviving mills was already weak in 1975 and deteriorated over the years, the declining profitability of the sick mills set in after the crisis of 1982.

* The reasons behind the downfall of the non-surviving mills and the sick mills have been very different. While the majority of the non-surviving mills closed chiefly due to their small size, obsolete machinery unprofitable operations and the ultra-cautious ideology of the managements, many of the sick mills ran into trouble because of over-ambitious capital expenditure which was not scientifically planned and executed, and unaccompanied by an increase in sales commensurate with the expenditure undertaken. While many of the non-surviving mills
were already sick in 1975 and deteriorated till they closed down, the condition of most of the sick mills deteriorated after the crisis of 1982.

* The differences in behaviour of the surviving and non-surviving and good and sick mills have been broadly presented under 5 major determinants of profitability, viz. costs and sales, the management of finance, modernisation, marketing and management ideology and style.

**DETERMINANTS OF PROFITABILITY:**

1. **Costs and Sales (See figures 5.1 to 5.4)**

   * Upto 1980, total costs and net sales increased at around the same rate for all categories of mills. After 1980, the growth rate of total costs was higher than that of net sales.

   * The per loom net sales of the surviving mills were already higher than the non-surviving mills in 1975 itself. Moreover, while the net sales of the surviving mills registered a growth rate of 15.6% over the period 1975-1980, those of the non-surviving mills increased at only 9.8%. The net sales of the good mills grew but the growth rate kept declining over successive periods. The sick mills registered a slightly higher growth rate over the first period but deteriorated to as low as -0.1% over the last period (Fig. 5.1 and 5.3).

   * Amongst the elements of costs, interest showed the highest increases followed by raw materials, direct manufacturing expenses and wages and salaries in that order (Figs. 5.2 and 5.4).

   * As against popular misconception, wages and salaries showed the least increases. In fact, as percentage of total costs, they declined over the period 1975-1991 for all categories of the sample mills (Table 5.1.3).
* Even for the good mills, the high interest costs ensured that while gross profits increased (though more slowly over the period 1980-1985), the profits after interest showed a declining tendency.

* All the major costs as percentages of sales were higher for the non-surviving than the surviving mills and much higher for the sick than the good mills, with the result that profits of the good mills were much higher than the non-surviving and sick mills. The differences between the good and sick mills became much sharper after Period III i.e. 1985.

2. FINANCIAL MANAGEMENT (See figures 5.5 and 5.6)

* The financial condition of the non-surviving mills in 1975 was not as good as that of the surviving mills. After 1975, while the combined reserves of the surviving mills doubled from Rs.232mn. to Rs.453mn. in 1980, those of the non-surviving mills declined drastically from Rs.163mn. to Rs.44mn. in the same period and some of the non-surviving mills did not have any reserves since 1975 itself.

* As regards the good and sick mills, the differences between their financial conditions were observed only after 1985. While the combined reserves of the good mills declined marginally, (from Rs.627mn. in 1985 to Rs.575mn. in 1990), those of the sick mills were wiped out, having drastically reduced from Rs.560mn. to -285mn. in the same period.

Growth rate analysis shows that:

* i) The share capital of the sample mills did not increase significantly over the whole period. However, the good mills showed a very marginal increase in the period 1985-1990.

* ii) The net worth of both good and sick mills declined after 1985, but at a much higher rate for the sick mills which showed a high amount of negative net worth in 1990.
iii) The current assets (working capital) needs of the good mills increased steadily with the shift to higher product-mix but those of the sick mills were compulsorily decreased due to shortage of funds.

Fund-flow analysis for the surviving and non-surviving mills show that the non-surviving mills were able to increase their net fixed assets by only Rs.28.8mn. over the period 1975-1985, chiefly due to lack of funds and continuous losses. The surviving mills, both the good and the sick, were able to afford more capital expenditure because of profits and reserves, more so in the period 1980-1985. In fact, the sick mills increased their fixed assets at a pace slower than that of the good mills in the first period and at a much faster rate than the good mills in the second period, creating a resource crunch so that in the third period their increases were marginal. The good mills were able to sustain the growth rate inspite of marginal losses (after interest and depreciation). The needs of finance, both long and short term, increased sharply for both categories as is to be expected.

The ratio analysis carried out for the sample mills reflects the same patterns. The gross profits as well as profits after interest and depreciation of the good mills have been higher than the non-surviving and sick mills. They have managed their finances more prudently and with careful planning and control over costs and inventories. While they have not been ultra-cautions like the non-surviving mills, they have also not been rash and over ambitions like the sick mills nor have they given undue importance to the acquisition of unproductive assets like the sick mills.

3. MODERNISATION (See figures 5.7 and 5.8)

The surviving mills already possessed about 50% more gross block and plant and machinery per loom than their non-surviving counterparts in Period I. Some of the non-surviving mills had pathetically low amounts of obsolete and worn-out machinery in
1975. By Period III i.e. 1985, even the maximum figures of the mills of the non-surviving category were lower than the minimum figures of the surviving mills.

* The good mills possessed about 15% more gross block per loom in 1975 than the sick mills. While the gross block and net fixed assets of the good mills increased at growth rates of 20.3%, 12.6% and 8.1% over the three successive periods, those of the sick mills increased at compound annual growth rates of 17.2%, 19.6% and only 1.3% in the respective periods.

* The differences between the surviving and non-surviving mills as regards the indices of machine productivities, machine efficiencies, labour employment ratios and overall productivity in 1980 were significant. The differences between the existing and achievable levels were high for both categories. Due to lower levels of modernisation in most of the non-surviving mills, the achievable levels of productivity with existing machinery were lower than those of the surviving mills for many
of the parameters. Between the good and sick mills, the differences in the various productivity parameters in 1980 were not very significant. In fact, the labour employment ratio for the good mills was much higher than the sick mills in the weaving departments. After 1980, the good mills paid more attention to their productivity levels than the sick mills. This was partly due to the deteriorating condition of the sick mills and financial stringency experienced by them after 1982.

4. MARKETING AND DISTRIBUTION (See figures 5.9 and 5.10)

* Marketing has assumed critical importance when the organised textile industry is being gradually edged out of the market and most mills are finding it difficult to market its products.

* For most of the sample mills, marketing has meant distribution of its products. Very few of the mills employ any marketing strategies like a scientifically planned product policy, a realistic and optimum pricing policy and a comprehensive promotional programme backed by an efficient market information system and field marketing organisation.

* During the period under observation, there was a manifold increase in the yarn sales of the sample mills while the cloth sales fluctuated within a generally constant level of production. Most of the surviving mills reduced their loomage after 1985, some of them more drastically than others.

* Only two of the non-surviving mills had used additional means of marketing apart from the usual distribution channels. Due to almost continuous financial shortages in most mills in this category, they were also more dependent on the traders than the surviving mills. In many of the mills, the wholesaler specified the product-mix, its construction as well as processing of the fabric. They also influenced its pricing significantly.
The operations of most of the Ahmedabad wholesalers in general have not been as big as the Bombay wholesalers and are less risk-taking and more conservative than their Bombay counterparts.

Most of the non-surviving mills produced low to medium-priced varieties of the standard longcloth, poplin, patta kind and fiercely competed amongst themselves, leaving very low margins on sales. Many of them were cotton-based with very low amounts of non-cotton fibres in their raw-material mix. With few exceptions, the surviving mills, both good and sick, have been producing high-priced cotton, blended and non-cotton fabrics.

Many of the surviving mills have successfully tried to shorten the distribution channels and started employing methods like indenting in the 1970s to widen the geographical reach and lessen their dependence on the local merchants.

In general, the differences between the product-mix of the good and sick mills have not been very significant. The average price-realisations have been almost similar, but most of them specialise in some high-priced varieties. However, the average net sales of the two categories show significant differences, implying that the sick mills after 1985 have been able to fetch high prices for their varieties but at much lower volumes. The net sales of the sick mills showed a negative growth rate of -0.1% over the period 1985-1990.

5. MANAGEMENT IDEOLOGY AND STYLE

The top management's operating style and its supporting ideology play a most crucial and vital role as a major determinant of profitability since the policies set by them pervade and influence all the other determinants. The management style is the visible, operating manifestation of the invisible network of values, beliefs and norms held by them.
Management style has various dimensions such as risk-taking as against the risk-aversive mode, growth-oriented as against the stability-oriented mode, the degree of participation in decision-making allowed, the extent of delegation of authority, or an analytical, rational, planning-oriented mode as against a judgment-oriented mode.

The managements of many of the non-surviving mills had inherited a more distorted production and capital structure in terms of older mills with obsolete machinery and low equity. This influenced greatly their ideology and style.

The average age of the managements of the non-surviving mills in 1980 was higher than the surviving mills, and in most cases they were risk-aversive and stability-oriented compared to the managements of the surviving mills.

The managements of the sick mills were more growth-oriented and ambitious than the managements of the good mills which can be seen from the modernisation decisions taken by them after the prosperous period 1978-1981.

In general, the managements of many of the non-surviving mills did not delegate authority in the real sense of the term nor encouraged participation by subordinates in the decision-making process.

The managements of the good mills have been more resourceful in adapting to the adverse and changing economic and market environment than those of the non-surviving and sick mills.

MAJOR IMPLICATIONS FOR POLICY

In spite of the recommendations of various Committees, Working Groups, Task Forces, etc., policy intervention by the government has come too late and in insufficient measure to be really effective.
* The government has admitted that the "structural rigidities and imbalances" induced by various economic policies in the past have been partially responsible for the sickness in the organised textile industry and that "the remedy has to be found by proper policy adjustments to improve the viability of the industry as a whole."

* There have been many conflicts within the textile policy adopted by the various governments. Moreover, there have been frequent changes in policy which has rendered long-term planning by the mills difficult.

* The unbridled growth of powerlooms encouraged by government policy had led to very high excess capacity in the textile industry.

* Many experts and Committees have recommended that it is imperative to reformulate economic policies in such a manner that it resolves present day conflicts and problems of the textile industry. It is thus necessary to change the nature and quality of state intervention in the economy.

* It is important that policy reforms do away with avoidable uncertainties. Policy signals should be clear and devoid of directional reverses.

MAJOR IMPLICATIONS FOR MARKETING

* The increasing competition from powerlooms can only be combated either by shifting to a high-priced product-mix or failing that, by producing fabrics of uniform and high quality and earning a brand name in the market. There should be a concerted effort to produce new varieties and find new markets.

* The shift in consumer preferences from cotton to blended and non-cotton fabrics and from traditional to secular dressing patterns should be kept in mind while planning product-mix and marketing strategies.
* The potentials of the vast rural market should also be fully utilised.

* The importance of marketing in today's competitive environment where there are too many goods chasing too few customers requires that marketing by mills should follow a scientific product and pricing policy backed by an efficient market information system and promotional programmes.

MAJOR IMPLICATIONS FOR MODERNISATION

* Achievements of high productivity levels on existing machinery should ideally precede capital expenditure on new machinery.

* Modernisation instead of being an ad hoc, one-shot process, should be a continuous and scientifically planned process after taking into account its viability.

* Technical modernisation should be matched by organisational modernisation and followed by an upgradation of product-mix leading to increased sales commensurate with the capital expenditure.

* Mills should rely more on their own retained earnings to finance capital expenditure and gradually increase their plant and machinery instead of sudden and heavy reliance on outside capital.

In fine, there is scope for success and growth in the industry but the management style will have to be flexible, participative and resourceful, based on effective information and quick response strategies. It appears that the industry, in order to preserve and enhance the profit margin will have to put in intense efforts towards increasing the growth rate of sales by innovative, judicious and effective marketing, modernisation and financial management. The good mills have survived so far because of their flexibility and careful planning and cautious but steady growth at a pace which the mill was capable of. The follow-
through was also planned and efficiently executed, managing the change within the constraints imposed by the policy and market environment. These factors assume an added significance under the present circumstances of industrial restructuring wherein Indian industry will be vulnerable to competition both in the domestic as well as international markets. As a successful young managing director of a prosperous mill put it succinctly, what the industry needs today is 'renovation'.