CHAPTER I

INTRODUCTION

The widespread sickness and mortality in the hundred and fifty year old textile industry, which laid the foundation for industrialisation in our country, has been causing considerable concern to industrialists, economists and policy-makers. Since the nineteen sixties, the organised sector of the Indian cotton textile industry has been passing through successive periods of crisis. Every crisis has left this sector weaker and less able to bear the general economic strain and subsequent shocks. Four points are worth noting about the nature of sickness in the textile industry: it is neither temporary nor isolated, it largely affects the organised sector, within the organised sector it is more prevalent in the composite mills, and it is more pervasive in Ahmedabad compared to Bombay and Coimbatore.

There can be no two opinions about the importance of the cotton textile industry in the Indian economy. The organised sector of the industry provided employment to over 1.2mn. people, constituting about 17% of the aggregate factory labour. It is linked to a major agricultural crop, contributes substantially to export earnings and a substantial proportion of its production goes to fulfill a basic need. Moreover, the industry has a complex inter-relationship with the other sectors of the economy. As shown in the 89 sector input-output table of the sixth five-year plan, the cotton textile sector receives inputs from 45 sectors or nearly one half of the Indian economy. On the output side, the products and by-products of the industry are delivered to 35 sectors of the economy.

In trying to analyse the underlying causes of this sickness, people generally attribute it to obvious reasons like demand recession, competition from powerlooms, increasing costs, and controls and regulations on the industry. These factors are no doubt important, but at the same time it can be observed that
there have been some mills which have faced the crisis with strength and resilience, though the external factors affecting the industry have been common to all the mills. It would seem that these prosperous mills have successfully separated themselves from industry trends and attempted over time to overcome the constraints imposed by the economic policy and market environment by using a wider range of decision variables and making optimum use of the available opportunities. Thus factors internal to the firm or under direct control of the management also seem to have played an important role in the survival and growth strategy of mills.

A plethora of committees, task forces, working groups, conferences and seminars have addressed themselves to the problem of sickness in the industry. Many researchers have also tried to analyse the phenomenon (Goswami, 1990, Padmanabhan, not dated, Paranjape, 1980, Prafull Anubhai, 1988, Chandrasekhar, 1984). In a majority of the analyses, the focus has generally been on sickness or mortality rather than on survival and growth. Under the circumstances, it would be interesting to undertake an in-depth study of the performance of the various categories of mills - the chosen few who stood their ground and successfully combated the environmental pressures, those who just managed to scrape through and those who succumbed to the pressures - to find out the determinants of profitability, more specifically those within the control of the mills.

Even before the establishment of the first textile mill, Ahmedabad was already a commercial and industrial centre with a well-established indigenous textile producing and trading industry (Mehta, 1982). One of the most important of the traditional organised industries, the cotton textile industry has been referred to as the mother industry of India, and Ahmedabad was known variously as the Manchester of India and the Bolton of the East. Ahmedabad in its heyday had 63 composite and 4 spinning mills (See Appendix 1). Though its mill industry had undergone many ups and downs, especially around 1915 when many mills went into liquidation and changed hands, the sickness which has
gripped the industry since the nineteen sixties has been chronic. Not only has it adversely affected the workers and shareholders, the various ancillary industries like textile machinery, spare parts, stores, dyes, chemicals, etc. and people connected with stores, processing and distribution of textiles have also been affected to a great extent. The government has also poured in large amounts of money into the sick units and powered in suffered loss of revenue in terms of excise, octroi and other taxes. The cloth production of the Ahmedabad mills as a percentage of all-India mills sector production has fallen from 23.3% in 1975 and 25.1% in 1980 to 17.6% in 1985 and still further in 1990. 29 out of the 63 mills in the city lie closed today. Seven of the working mills are under the National Textile Corporation, and another 13 have been declared sick as per the provisions of the Sick Industrial Companies (special provisions) Act, 1985 and have been referred to the Board for Industrial and Financial Reconstruction (BIFR).

Despite its magnitude and seriousness, there has been as yet no systematic, detailed and integrated study of the Ahmedabad mills in recent times. The only significant earlier studies on the Ahmedabad textile industry have been either purely historical (Mehta, 1982) or outdated and have only a historical relevance to the present situation in which it is placed now. Of these, the one by Shah B.K. (Shah, 1954) was on the size of the Ahmedabad Mills, and the others (Mehta, 1949 and Mehta, 1953, 1954) were on the Indian textile industry, covering Ahmedabad as one of the important centres. The present thesis is an attempt to study the determinants of profitability which are associated with a traditional and low profit industry like textiles for the Ahmedabad Composite Mills. The study covers 32 out of the 63 composite mills of Ahmedabad, representing 50% of their total installed spindleage and 51% of their total installed loomage.

The thesis does not rely solely on analysis of financial statements. The statistical information has been supplemented by extensive interviews. The approach adopted evolved because at the outset itself it was realised firstly, that there are limitations
to absolute reliance on financial statements and secondly, that there are some important determinants of profitability which cannot be quantified and found in the financial statements. Since the financial statements are a statutory regulation imposed on the company for the shareholders and since they show the state of affairs of a running unit on a particular day, not only do they show an incomplete picture, but often they show the workings of the company through rose-coloured lenses. Even if one takes into account the auditor's remarks and things like revaluations of assets, there are many other ways like valuation of stocks, computation of and changes in depreciation systems and the presentation of various provisions, to name a few, which lend themselves to manipulation, albeit lawful.

Moreover, since the financial statements record historical costs, one cannot judge the true status of some vital parameters like capital assets, etc., especially for an industry which is more than 125 years old. There has not been a single mill in Ahmedabad which was started after 1932, and most of the units were started before World War I. The additions to the gross block thus show additions of expenditures as and when they were incurred. Thus a mill with obsolete machinery which spent say Rs.10mn. on plant & machinery in 1990 would show a much better picture than another which had modernised a few years ago at a much lesser cost of machinery price and was already fairly modernised. The percentage of net fixed assets to gross block is only a gross indicator of the state of modernisation in a unit, but even that is of very limited value since it in turn depends on depreciation, the method of which differs from mills to mills, and since the basic limitations of historical costs are not eliminated. It is thus evident that the conclusions based solely on analysis of the financial statements would be grossly misleading.

Again, there are some crucial determinants like management style and ideology which affects almost all the other determinants but which cannot be quantified. Dimensions of management ideology would include their perceptions about risk-taking and the pace of growth of the company, about the usefulness of planning and
scientific management, about employee participation in decision-making and about administrative flexibility. Since it is the top management which takes all the strategic decisions on the long and short term policies of a company, and in many of the units in Ahmedabad even on the day to day working of the mills, the ideology and dynamism of top management plays a vital role in affecting the profitability and viability of a company. As a result of the above-mentioned reasons, apart from the financial statements, the thesis relies more on personal informal and candid interviews of top managements and senior staff of some mills, both from the sample mills and others, people concerned with the textile research institutions, the textile industry and with the distribution channels, in Ahmedabad and in Bombay, and an attempt was made to study the determinants of profitability in the Ahmedabad mills in a holistic manner.

OBJECTIVES

i) To study the surviving and non-surviving mills of Ahmedabad,

ii) To analyse the financial, production and marketing management of the mills,

iii) To differentiate the determinants of profitability under the control of the mill managements which have a significant bearing on survival strategies, particularly with respect to factor costs and expenses, sales, modernisation, management of finance, the marketing and distribution of textiles and management ideology and style and the response of the industry to the changing economic and market environment,

iv) To critically evaluate the workings of the profitable and sick surviving mills.

THE PERIOD CHOSEN FOR ANALYSIS

The year 1976 may be taken as a crucial turning point for the textile mills when some of the controls which plagued the
industry were either lifted or eased by the government. The controlled cloth obligations of the mills were eased and later discontinued. The Multi-Fibre Policy of 1976 allowed, for the first time, the use of man-made fibres by the mills. The Industrial Development Bank of India (IDBI) offered, in the same year, the Soft Loan Scheme to the industry for financing its modernisation programme. The Textile Development Fund and later on the Textile Modernisation Fund were also constituted to facilitate disbursement of finance at lower interest rates to the industry.

The period 1975 onwards has therefore been chosen for analysis. The study was addressed initially to the period 1975-1985 due to the published data position in the initial stages. As the data position improved, the period was extended to 1990 in the expected advantage that the more later position would better reflect the differences between the good and the sick mills within the surviving mills of Ahmedabad.

THE SCOPE OF THE ANALYSIS

The thesis addresses itself chiefly to an analysis of the determinants of profitability within the control of the mills and the external environment taken as common and given for the industry. A review of the policy and market environment has been given together with machinery developments in the world textile industry to provide an overall perspective and as a backdrop to the changes taking place in the Ahmedabad cotton textile industry and to the analysis of the sample mills.

This study was limited to the composite mills in Ahmedabad, within which there are two ownership categories: (i) private and (ii) nationalised. The 7 nationalised mills under the National Textile Corporation were excluded from the purviews since their textile operations may not be strictly based on market forces, they had inherited an already distorted production and capital base and they enjoy certain concessions not available to the industry in general. Their operations are thus not comparable.
with the privately owned mills. There were also problems of availability of data. Within the privately managed composite mills, the diversified mills were excluded from the study since their financial performance is not limited by textile-related factors. The problem of data availability of a few mills whose majority shares were privately held prevented them from being included in the study. So has been the case of mills closed before 1982. The study thus covers 32 of the 63 composite mills of Ahmedabad, accounting for 50% of the total installed spindleage and 51% of the total installed loom capacity in 1975 and 59% of the installed capacity excluding the NTC or the public sector mills.

**METHODOLOGY**

For the purpose of this study, detailed information was accumulated for the 32 sample mills in 28 companies. From the balance-sheet and profit and loss account statements, information on 30 important parameters of assets, liabilities, sales, expenses and profits were obtained for the years 1975-1990. Apart from this, production, sales, productivity and management profiles were also obtained. Extensive interviews were also conducted with top management and senior staff of some of the mills. The interviews with the managements of the mills were not structured interviews but informal discussions about the state of the Ahmedabad textile industry and their own mills to elicit candid responses.

In 1982, one of the sample mills was sold and amalgamated with another mill, and hence further separate data was not available for it. Eight of the sample mills closed in 1984, 1 in 1986, 4 in 1987, 2 in 1988 and 1 in 1990. These 17 mills were designated as non-surviving mills for the analysis and the rest 15 as surviving mills. Thus, data for the non-surviving mills by 1985 was available for only 8 mills and since by 1990 all of them were closed, no data was available for them for that period. However, data for the 15 surviving mills was available for the entire 15-year period and to analyse the data extensively, the 7 surviving
mills which had been declared sick under the Sick Industrial Companies (special provisions) Act, 1985, were designated as sick mills and the other 8 as good mills. We thus have four categories of mills, the 15 surviving and 17 non-surviving mills, and the surviving mills have been further categorised into 8 good and 7 sick mills. Combined balance-sheet and profit & loss account statements and mill profiles were prepared for the four categories of mills.

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<th>32 SAMPLE MILLS</th>
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<td>15 SURVIVING MILLS</td>
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<td>8 GOOD MILLS</td>
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Since the size of the sample mills varied greatly, with installed loom capacities varying between 496 to 1586 in 1975, in addition to the analysis of the aggregate data, data from the balance-sheet and profit and loss account statements for each mill was also converted on a "per installed loom" basis to equalise the scale of operations and facilitate inter-firm and inter-category comparisons. Further, in order to smoothen the annual cyclical variations, three year moving averages were derived and out of these, four periods corresponding to 1975-76-77, 1979-80-81, 1983-84-85 and 1988-89-90 were chosen for analysis. Thus, the analysis has been carried out on aggregate combined data for the years 1975, 1980, 1985 and 1990 as well as "per loom" data for Periods I, II, III and IV for the various categories of mills. The per loom data provides average as well as minimum and maximum values for each category of mills since there is considerable
inter-mill variation even within the various categories for many of the parameters. In many cases, the minimum and maximum values underscore the average values, putting them in a better perspective.

The growth rates have been calculated on the aggregate data instead of the per loom data since the installed loomage of the mills has decreased drastically in the final period 1985-1990, causing a steep increase in per loom figures. Hence, though the use of the per loom data was indispensable for comparisons across categories for a particular period, it would be misleading for comparisons across the time period under observation. The number of mills and the number of looms in each category for all the four periods have been given in the Mill Profile Tables 5.1(a) and 5.1(b), and the tables used in analysing the sample mills give both aggregate and per-loom data.

The sample data have been structured to differentiate between the behaviour of surviving versus non-surviving mills and within the surviving mills, the patterns of behaviour of the good versus the sick mills, on the assumption that an analysis of the behaviour of the more prosperous and profitable mills regarding the various parameters and their responses to the economic and market environment will provide indications to the determinants of profitability for the Ahmedabad cotton mills industry and the extent of importance of these determinants. The in-depth analysis of the data has been presented under five major determinants of profitability: costs and sales, financial management, modernisation, marketing and management ideology and style as follows:

i) Costs and Sales:

The aggregate and per loom net sales and total costs data broken down into individual elements of costs have been provided for the four categories of mills over the period 1975-1990. The behaviour of some important parameters of sales and costs of the surviving v/s non-surviving and the good v/s sick mills has also been
graphically presented in two separate graphs. The cost and profit structure as percentage of net sales has also been given for the two pairs of categories of mills to observe the costs from a different perspective, relating sales and costs to the profit margin.

ii) Financial Management:

The analysis of the behaviour of the various categories of the sample mills as regards the management of finance has been undertaken in 3 parts: (i) growth rate analysis, (ii) fund-flow analysis and (iii) ratio analysis. The analysis is accompanied by Tables as well as graphs which provide major behaviour patterns as regards financial and finance-related parameters. Tables on comparative fund-flow statements and ratios have also been provided.

iii) Modernisation:

The data on net fixed assets of the mills as shown in the concise combined balance-sheets of the four categories of mills has been broken down into various components and presented graphically as well as in tables as regards their behaviour concerning modernisation and modernisation-related parameters, and critically analysed.

iv) Marketing:

Data relating to average net sales, product-mix, sales mix, cloth and yarn production and average sales price realisation per metre for the various categories of mills have been presented in tables and graphs and analysed critically based on interviews with managements and sales-related people in the industry.

v) Management Ideology and Style:

The management's operating style and its supporting ideology has a crucial influence on the profitability of a company. Though it
cannot be quantified, it pervades the entire organisation and running of a company and dominates the other determinants of profitability since it is the top management which decides the various policies and affects the behaviour of all the other parameters. An attempt has been made to evaluate critically the management style of the managements of various categories of mills based on interviews with top managements, senior staff, persons connected with the sales of the mills and the distribution channels and some industry experts to critically evaluate the general management style pervading the various categories of mills.

SOURCES OF DATA

The balance-sheet and profit and loss account statements and capacity and production details of the 32 sample mills in 28 companies were taken from various issues of the Stock Exchange Official Directory published by the Bombay Stock Exchange. The sales and production profiles were taken from ATIRA (The Ahmedabad Textile Industry's Research Association) with the permission obtained from the sample mills. For industry statistics, the Indian Textile Bulletin (Annual Numbers) and Census of Machinery in Cotton Mills published from the Office of the Textile Commissioner were referred to. However, state-wise data therein are available only upto 1981 and 1980 respectively. The Annual Bulletins of ATMA (Ahmedabad Textile Mills Association) provided the raw-material consumption, yarn and cloth production and processing data. The Chairman's speeches at the Annual General Meetings of ATMA also provided an idea about the state of the textile industry in Ahmedabad year after year. The 'Handbook of Statistics on Cotton Textile Industry' published annually by the Indian Cotton Mills Federation and the Mill Statement published annually by the Bombay Millowner's Association provided useful background statistics on the industry. Estimates on textile consumption in India have been taken from various issues of 'Consumer Purchases of Textiles' published by the Textiles Committee, Ministry of Textiles, a survey covering a sample of nearly 10,000 households distributed.
over urban and rural India. The rest of the data was collected through interviews with top managements and senior staff of mills and people connected with the yarn and fabric distribution channels, the textile research associations and the textile industry.

THE SCHEME OF CHAPTERS

The dissertation consists of a text divided into six chapters, including the present one. The first introductory chapter outlines the approach to the study, the scope and contribution of the study, its objectives, the plan of work and methodology, and sources of data. The internal workings of an industry are seen in a better perspective against the backdrop of the macro-economic policy and market environment for the industry that has evolved over the years. Chapter II reviews the past and present status of the industry vis-a-vis the economic policy and market environment for textiles prevailing in India. The textile manufacturing process with a review of the textile machinery developments and the extent of their deployment in the Indian textile industry is critically examined in Chapter III. A brief history, evolution and present status of the Ahmedabad cotton textile industry with special reference to modernisation and marketing is presented in Chapter IV, forming a background for an in-depth analysis of the sample mills.

Chapter-V reports the findings of the study. The first part introduces the sample mills, giving their capacity, production and sales profiles, management profile and concise combined balance-sheet and profit and loss accounts for four points of time in the period under consideration - 1975, 1980, 1985 and 1990. The second part of the chapter gives an in-depth critical analysis based on findings and interviews grouped under five major determinants of profitability viz., costs and sales, management of finance, modernisation, marketing and distribution and last but not the least, management ideology and style. The final chapter contains the summing-up of the analysis. The main text of the dissertation is followed by a list of References and
an Appendix giving the production, capacity, equity and worker profiles of the mills in 1975 and the present status of each of the 63 composite mills of Ahmedabad.