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PROBLEMS OF THE COTTON TEXTILE MILLS

IN THE CONTEXT of the Government's determined efforts to reduce the prices of the essential commodities, the problems relating to the cotton textile mill industry have now received wide attention. Though its recent achievements on the export front and the handsome profits earned by the big mills appeared satisfactory, they mask the deep-seated structural and operational defects of the industry as a whole. In recent weeks, therefore, several Ministers, both Central and State, have voiced their anxiety to restore the health of this industry and upgrade its efficiency, so that it can serve the people well and also maintain its export thrust. For various reasons, the cotton textile mills are unable to solve the crisis resulting from accumulation of stocks, high costs of the inputs, slackness in demand and difficulties of securing adequate funds at reasonable interest rates. Some mills have closed down and many have fallen sick. A high-power working group has been set up by the Union Government for the revival of the sick units in the textile, jute, sugar and engineering industries. The Tamil Nadu Government has ordered an in-depth study of the 212 textile mills in the State to locate the areas of trouble and appropriate steps are expected to be taken

soon to help the mills in difficulty. In West Bengal, Gujarat and Maharashtra also the State Governments are now seized of the problem and are trying to assist the industry to tide over the recession and resume its normal growth.

Though there appears to be a difference of opinion as regards how far the mill industry itself was responsible for the present state of stagnation, there is a clear appreciation of the vital importance of this industry to the national economy. The 600-odd mills in the country are providing direct employment to over 8 lakhs of people and to several lakhs of cotton growers indirectly. The trade in raw cotton in the country, estimated to be of the annual value of Rs. 1,500 crores, depends very much on the proper running of the textile mills. The fortunes of the cotton textile industry have a critical impact on the powerlooms and handlooms also. The Government has a long experience of controlling and regulating this vital industry and as such is aware of its manysided difficulties. This is clear from the fact that already several concessions and incentives have been offered to the textile mills. The National Textile Corporation has taken over 103 mills in trouble and is now running them with a view to restoring their full health.

Today, however, the situation in this industry seems to be affect-

ing all mills — composite, weaving and spinning. Accumulation of stocks and sluggishness in demand are faced both by the cloth mills and the yarn mills. Dearth of capital, either for current running or for expansion and diversification, is stated to be a common handicap for all these units. The fluctuation in the prices of cotton, frequent shortages in the supply of the required varieties of cotton, the new monopoly procurement agencies cropping up in Maharashtra and elsewhere and the short supply in regard to imported varieties of the fibre have combined to render the cotton economy so unstable that it affects the mill industry to a considerable extent. Above all, the cotton mill industry is over 70 years old and is badly in need of renovation and modernisation, for which funds are not available. If the long-term growth requirements of the industry are neglected, it will lose its profitability and competitive power in the international markets.

The immediate need of the mills is a well-designed strategy for reviving the demand for the cloth and yarn that have accumulated, clogging the wheels of production. This difficulty has been experienced since September, 1974 and by the end of May, 1976, 384 million metres of cloth had accumulated, as against 366 million metres for the corresponding month last year. In respect of yarn, the piled up stocks amounted to 22 million kg., the same as during the comparable month last

year, indicating that there has been no improvement. There is accumulation of about a lakh bales of cloth and yarn with the wholesale trade. Because of the credit squeeze, the wholesalers and retailers appear to be unwilling to hold stocks, thus forcing on the mills heavy inventories. The mills, on the other hand, are unable to cut down production as it would lead to unemployment and run counter to the Government's policy of avoiding retrenchment and lay-off. When most of the mills themselves have poor financial reserves, it is not possible to pile up unsold stock.

Besides, the textile mills have to bear the burden of producing controlled cloth, but the cloth produced under this scheme has not been cleared. The Government responded to the suggestion of the industry and first reduced the obligation from 800 million metres of dhoties and saris to 550 metres and later transferred 200 million metres to the handloom sector. Later still, the mills were allowed to sell controlled cloth packed by them up to April 30 through approved wholesalers and others. Since the conditions attached to this revised scheme appear to be difficult and are conducive to delay, a proposal that controlled cloth production may be stopped from the July-September period this year is now under consideration. If this is accepted by the Government, it will help to ease the burden of accumulated stocks.

The financial constraint appears to be weighing down the industry more than anything else. A recent survey of a sample of 115 mills, covering all types of cotton textile mills, revealed that 65 could not even earn the conversion cost. Very few composite mills were able to show improved working in 1975, compared to the previous year. According to responsible opinion in the cotton mills industry, its working capital requirements have increased due to inflation, erosion of reserves, accumulation of stocks and other factors. It is stated that the Tandon Committee, if applied, would starve the mills of working funds and that at least as a tem-

porary measure, their application should be postponed. It is also suggested that bank margins against cloth should be relaxed. A recent study by the Reserve Bank has revealed that the gross profit of the cotton mill industry as a percentage of sales was 8 per cent or more only in four in the past 25 years and that the flow of fresh capital into the industry was very low. It is also known that only one-tenth of the licences issued for new spindlage and loomage had actually materialised. As for the spinning mills, it is suggested that withdrawal of the stipulation on the quantum of hank yarn to be produced would be a relief and that if a system of buffer stocks is developed, it would stabilise the working of the mills and help in softening price fluctuations.

Another area where immediate attention is called for is the supply of raw cotton to the mills. The production of cotton has been fluctuating very widely over the years, and prices have also been fluctuating frequently. The forecasts regarding the crop have often gone off the mark, leading to a chain of difficulties for the mills. This year, the delayed monsoon affected the arrival of the cotton crop and the Government had to rush to foreign sources for importing the required quantities of the fibre. As the foreign exchange resources of the country are comfortable now, there may not be much difficulty in securing imports. But, on a long-term view, a programme to step up India's production to at least 90 lakh bales by 1978-79 is considered essential. One aspect of cotton distribution which has given cause for anxiety in several States pertains to the emergence of monopoly purchase of cotton by the Government of Maharashtra. If other cotton growing areas also adopt similar purchase schemes, it is feared that the cotton prices would be kept up under various pressures from the cultivators and that the differential between various varieties of cotton might disappear. It is hoped that the State Governments concerned would coordinate their efforts, keep the all-India requirements of the

cotton mill industry in view and avoid the unhappy consequences of competitive Government assistance to the growers.

Both the Government and the industry are aware that even if the mounting stocks are liquidated and a few sick mills are assisted to function well, the industry can come to its own and face the future only if it is quickly modernised. No doubt several mills have been short-sighted in the past and frittered away their reserves. Some have used the reserves of the mills to go into new lines of manufacture, not providing for the long-term renovation needs of the textile units. The Government has announced a scheme for modernisation allocation of Rs. 350 crores for the purpose. The Industrial Development Bank of India has recently been directed to increase its assistance and facilities to the industry.

The estimated cost of setting up a new textile mill with 25,000 spindles is Rs. 4 crores and 300 looms, Rs. 2 crores. Instead of providing the bulk of the said amount to new units by way of equity and loan from public financial institutions, it may be more economical and certainly more productive for these financial institutions, to divert the money for renovations and modernisation of the plant and equipment of deserving mills. Thus, it may be possible to restore more mills to health and revive more spindles and looms with a given allocation of funds rather than create new spindlage and loomage. It is, however, necessary to caution that only mills with prospective viability should be selected for financial assistance and aid. It is wrong to imagine that every sick mill could be taken over by the Government irrespective of its present and prospective viability. The Government should not become the dumping ground of derelict machinery and equipment. It is a strange socialism which enables the private sector to take home profits and obliges the Government to take over the losses.

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