

Genesis Of Industrial Sickness In Textiles

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The Indian Textile Industry is one of the oldest and organised industries of the country and regarded as prime mover of the nation's economy. It attained its peak of excellence and developed into full-fledged composite industry during the 10th and the 17th centuries with world-wide fame for superior quality of clothes. India is one of the largest textile producing countries in the world, in terms of installed capacity, production of cloth and yarn and employment potential. Indian textile industry has perhaps few parallels in the international textile scene. The textile industry provides around 10 percent of total employment in the country, around 70 - 75 million people are directly or indirectly supported. It has a sizeable weight in the country's index of production and significantly contributes to the Gross National Product. Its contribution to national exchequer exceeds Rs. 6000 million per annum, annual foreign exchange earnings of the industry approximates Rs. 5000 million to Rs. 6000 million¹. In other words, textile industry has occupied a pivotal place in the national economy in terms of GNP, foreign exchange earning, contribution to national exchequer and employment.

Industrial sickness has assumed alarming dimensions, especially in the textiles. The number of sick mills has risen from 162 in 1985 to 186 in 1986². It is no longer an economic problem for the investors alone. It is a much wider and complex social malaise as well. Millions of workers and consumers at large stand to suffer as a result of industrial sickness. In developing countries, where resources are scarce, and their efficient development is of paramount importance, the State has to assume the role of restoring them to normal industrial health. With this objective in view, NTC was established which, of

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1. Kothari's Economic & Industrial Guide of India, 1980 - 81, Page 1, Published at Madras.
2. Times of India, dated 10th January, 1988.

course, continues to take over the sick textile mills from private hands till they are normal again. Inertia of NTC in expediting the measures to deal with industrial sickness is yet another problem culminating into closure of sick units—the number rising to 126 till 1987³.

Genesis Of Industrial Sickness :

The industrial sickness refers to a unit's inability to meet its financial obligations for several years from its internal sources, viz, equity (or proprietors capital), reserves and surplus. It lands in financial mess when the cash flows are poorly managed. Mounting trade losses result in heavy erosion of its capital so much so that the unit is saddled with worsening debt-equity ratio. It conforms to the views of both the Reserve Bank of India and the State Bank of India.

According to Reserve Bank of India a sick unit is that which has incurred cash loss for the last one year and, in the judgement of the Bank, it is likely to continue incurring cash losses during the current year as well as in the following year. The unit is sick which has an imbalance in its financial structure, such as current ratio is less than 1 : 1 and there is a worsening trend in debt equity ratio, i.e. total out-side liabilities to the net worth⁴.

State Bank of India Study Team defines a sick unit which fails to generate internal surpluses on continuing basis and depends on frequent infusion of external funds⁵.

Financial institutions consider a unit to be sick when it incurs cash losses for several years leading to erosion of net worth; or it makes continuous default in meeting interest and repayment obligations and is saddled with mounting arrears on account of statutory and other liabilities⁶.

The inquiry into the genesis of industrial sickness in the textile mills has brought forth the loss of output as one of the significant causes of the malaise. This observation is based on factual analysis presented in the table (1).

3. *Ibid.*

4. *Quarterly Journal of Management Development, University of Allahabad, Allahabad, Vol 14, January - December 1984, Page : 53.*

5. *Ibid. Page : 53.*

6. *Ibid. Page : 54.*

TABLE (1)

Output in the Textile Industry during 1987 - 88

Capacity Utilisation	Percent Number of Units	Output (in Million metres cloth)
Above 75%	10%	1,170
50% 75%	47%	8,450
25% 50%	23%	2,600
below 25%	20%	780
	100%	13,000

Source — Compiled and Computed by Author.

Total capacity installed at present is estimated to be 50,000 million metres of cloth in 53 lakh looms approximately of the Textile Industry as a whole⁷. It is tragic enough to find that 10% of the mills are able to utilise above 75% of the capacity with out-put of 1170 million metres of cloth (or 9% of the total output approximately). The largest production of the textile mills, viz 47% are utilising capacity ranging from 50% to 75% producing 8,450 million metres (or 65% of the total output). Forty-three percent and below hold together 26% of the total output. The actual output of 1000 units at 1,000 million metres constitute a bare of 43% of the installed capacity. It speaks volume of the magnitude of the industrial sickness which we may have to face in the future. The low capacity utilisation results in dis-investment following negligible profit or recurrent losses.

Low output accounts for the higher cost of production in the textile industry. In the course of study, it was discovered that, for a unit to break-even, it must be able to work on 25 percent of the capacity. The norm, though not revealed in the reports and

7. *Times of India*, dated 10th January, 1988.

academic works by others, is quite true and realistic. It is estimated that 23 percent of the textile mills are not producing enough to cover the total cost of production, and 2% of the total number of units have already been declared to be sick and taken over by the NTC operations do not, in any studied opinion, disclose the actual magnitude of the problem. losses are incurred by 25% of the units in the industry.

Idle capacity and low productivity are inter-twined problems adding much to the woes of the industry. At present, annual output per worker is 187 metres per annum as against the required target for normal productivity of 480 metres. It incontrovertably proves that the textile industry is beset with low productivity. It is admitted by all that the leading textile mills are finding it difficult to improve profitability to tempt new investors. Annual losses of the sick units taken over by the NTC run in to huge amount of Rs. 450 crores⁸ in addition to the loss of Rs. 330 crores by the sick units not managed by NTC. Even statutory obligations to pay interest and repay loans are not fulfilled by the sick units. At present, outstanding loans and advances of the sick units amount to Rs. 1112⁹ crores. It goes without saying that the units below break-even point are in the red.

Magnitude Of Industrial Sickness :

Classification of textile mills on the basis of capital employed prove beyond doubt that it is the small scale sector of the textile which is actually in the grip of deep rooted financial malaise-sickness.

8. *Times of India*, dated 10th January, 1988.

9. Rao, S. R. K., "What Causes Industrial Sickness", *Commerce*, Bombay, April 2 - 8, 1988, Page : 8.

TABLE (2)

Classification of Textile Industry by Size of Capital Employed, Unit Works Cost, Selling Price and Profit Margin during 1987 - 88

Capital Employed (Rs. in Crores)	Total Unit in Industry		Units Works Cost (Rs. Per Metre)		Selling Price (Rs. Per Metre)		Profit Margit (Rs. Per Metre P.E. Unit)	Loss Incurred Rs. per Metre Sick Unit
	Total Units	Sick Units	P.E. Unit*	Sick Unit	P.E. Unit*	Sick Unit		
0 — 0.35	600	167	5	15	10	7	5	8
0.35 — 5.00	300	19	4	13	12	6	8	4
above 5.00	103	—	3	—	20	—	17	—
Total	1000	186	S@	14@	14@	8@	10@	6@

Note — Total Units include Sick Units.

* denotes Profit Earning Unit.

@ denotes Average Works Cost, Average Selling Price, Average Profit Margin, and Average Loss.

Source — Compiled And Computed from different sources.

Table (2) reveals that 167 small units in the range of Capital employed below 35 lakhs have incurred average trading loss of Rs. 8 (Direct Cost-Overhand Cost/total output). However, the absence of sufficient data on loans and advance to small scale units, deterred the author to work out ratio of capital cost to the manufacturing cost. Nevertheless, it would be an excessively high ratio. Even if we base the estimated ratio of the capital cost to the manufacturing cost, it should be around Rs. 1120 crores.

The medium sized textile units, though employing larger capital for modern looms and efficient management based on sound organization, is marked by slippages in the financial performance. 19 units out of 300 approximately have suffered losses at the rate of Rs. 4/- per unit of textile produced. It is a fairly estimated loss per units incurred by a medium-sized textile industry of course, the losses are far beyond the trading results when the losses due loans and advances are added to. The 19 units owe to financial, and banking institutions as well as others the loans to the tune of Rs. 280 crore.

The study does not reveal any large units, employing capital above Rs 500 lakh, to be sick in financial terms as specified by Reserve Bank of India or State Bank of India or by other financial institutions. There are 100 large units approximately or 1/10 of the industry can safely be assessed to be operated with large investments—managed and budgeted both for short and long term objectives.

The inescapable inferences to be drawn from the preceding table No. (2), is that economics of scale are responsible to large extent of industrial sickness.

Tiwari Committee's report, so often quoted by authors on the subject, have cited three causes of the industrial sickness, viz, poor management, market recession and large capacity. These factors are known to have been assigned weight ranging from 52% for poor management to 14% for large capacity and technical faults. Market recession is held to account for 23% of the weight in tackling industrial sickness.

The view of the Committee do not corroborate the investigated cases, as presented in the foregoing table number (2). It is quite understandable that the weightage of factors underlying the industrial sickness would tend to vary and be influenced, among others, by nature of the industry. The report was published to deal with stagflationary conditions prevailing in heavy industries (Capital-goods industries). The public sector, as widely known, is earmarked to develop the heavy industries, comprising also the Capital goods industry. With a few exceptions which are established in the private sector.

As a corollary to the preceding discussion, stag-flationary tendencies are not visible in the Capital goods industries (or heavy industries). It is admitted by upshot of the problem overtaking the consumer goods industries.

Conclusion :

In fine, industrial sickness is a financial norm to judge the borrowers, ability to utilise the capital for growth. Its presence is an open signal to investors about the sick units for withdrawal of capital. The NTC, being the sole statutory corporation, has to step in to initial measures to reverse the declining state, styled as economic non viability, in a bid to serve better the overall objective of its operations social welfare, NTC would better do to mainly determine its strategy to protect small textile units which are labour intensive and a means of providing more job opportunities. The statistical information analysed by the author corroborates the view of author that they are the worst sufferers from industrial sickness.

