

Textile Industry Seeks Loan Rejig

Hit by Slowdown: Mills are unable to pay back ₹100,000-crore loans; textile ministry asks RBI to intervene

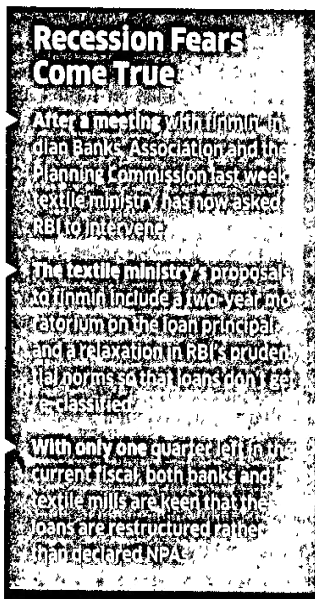
NIDHI NATH SRINIVAS
NEW DELHI

The government is scrambling to rescue banks that have outstanding loans worth Rs 100,000 crore to Indian textile mills on their balance sheets, making them the highest unpaid dues in the manufacturing sector.

Textile mills are in no position to pay back this money, following a global slowdown in clothing demand and rapid capacity expansion, which has led to more than half of the listed players booking a loss in the first six months of the current fiscal year.

After a meeting with the finance ministry, Indian Banks' Association and the Planning Commission last week, the textile ministry has now asked the RBI to intervene.

"The industry has a Rs100,000-crore exposure to banks and lending agencies. Given that the slowdown in 2011-12 is worse than the slowdown of 2008-09, there exists a need to provide sector-specific dispensation from the RBI," said a senior official in the textiles ministry who declined to be named.



"While there has been no default in repayment of loans under Technology Upgradation Fund Scheme (TUFS) so far, given the current trends in profitability and cash

flow, defaults can start any moment," said DK Nair, secretary, Confederation of Indian Textiles Industry. K Ramakrishnan, chief execu-

tive, Indian Banks' Association, said the final call on loan restructuring issue will be taken by the RBI. "It is in the interest of banks that the borrower is able to repay even if with little support. RBI has earlier allowed restructuring in some cases, so it cannot be ruled out," he added.

The textiles industry's financial woes have the potential to become a political hot potato. Commerce and Industry minister Anand Sharma, who is also in-charge of textile ministry, on Monday told Lok Sabha that the global slowdown was a "serious concern" for the textiles industry and steps have been taken to address the "challenge". As several MPs were not satisfied with his reply and wanted to place more supplementary questions, Speaker Meira Kumar said a discussion on the textile sector could be held if MPs give notice.

With only one quarter left in the current fiscal year, both banks and textile mills are keen that the loans are restructured rather than declared non-performing assets. Therefore, the textile ministry's proposals to the finance ministry

include a two-year moratorium on the loan principal and a relaxation in RBI's prudential norms so that the loans don't get re-classified.

"Banks may be allowed to restructure accounts by March 31, 2012 and till then all accounts, which were standard assets as on 30th March 2011 and for which applications for restructuring have been filed, may be considered standard assets," the ministry has suggested to the RBI. The textile ministry also proposes conversion of eroded working capital into working capital term loan and extension of 2% interest subvention to garment and knitwear sectors. "Banks may also be directed to extend packing credit loan in foreign currency either in dollar or euro to exporters (LIBOR + 2%) to enhance their competitiveness," it has added.

Out of 226 listed textile companies, 187 have poorer results compared to last year and 127 companies have net losses, according to a data by CITI. According to the textiles ministry, the worst affected are mills located in southern industrial hubs such as Coimbatore, Tirupur and Guntur.