

Sharma seeks restructuring of loans to textile companies

■ Textile minister also seeks 2% interest subsidy for SMEs

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TEXTILES mills hit by high raw material costs and slump in key export markets could soon receive a helping hand from the government. Commerce and textiles minister Anand Sharma has written to finance minister Pranab Mukherjee for the restructuring of the textile companies' loans as well as for extending a 2% interest subvention for SMEs to even the bigger garments and knit-wear units.

Several textile firms have walked into a dent trap owing to a sudden fall in product prices after two successive years of relentless rise in raw material costs.

According to sources, Sharma has sought a moratorium for two years from July 1 on the repayment of the principal amounts by the capital-intensive textile units, which account for 90% of the industry's loans, and a one-year moratorium for other textile segments.

In a separate note to the finance ministry, the textile ministry has suggested extending a 2% interest subsidy to the garments as well as knitwear sectors, worst-affected by the global turmoil, by widening the Reserve Bank's provision of such a subvention for only small and medium enterprises.

Since dozens of mills have already been granted loan restructuring dur-



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ing the subprime crisis in 2008-09, the ministry has also asked for the tweaking of the Reserve Bank's prudential norms that stipulate any repeated rescheduling of loans be declared non-performing assets, industry executives said.

Textile mills, which bought cotton at record-high prices in the last marketing year that started October 1, 2010, were caught off-guard when product prices suddenly fell significantly from April on poor demand as an approaching economic slowdown aggravated into a sustained crisis in the US and the EU, which together account for around 65% of India's textile exports.

Earlier this fiscal, India, the world's second-largest textile supplier, had set a target to increase its textile and garment exports to \$33 billion, compared with ₹28 billion in the

last financial year.

Cotton yarn production is down by 15% and fabric output is down by 19% during the April-October period from a year earlier, said the note, pitching for the relief package.

According to an estimate by the Confederation Of Indian Textile Industry (CITI), the slump in cotton prices to around a half since the March level of ₹63,000 per candy of 356 kg alone has caused losses to the tune of ₹6,500 crore to textile mills.

A senior textile industry official put the worth of the suggested relief package, including the interest subvention, at ₹5,000 crore, although industry executives are skeptical if the government would indeed incur such a huge cost on interest subsidy.

To relax the interest burden, the ministry has also recommended that banks give foreign currency loans to all textile exporters to help reduce the credit cost considerably. "Banks may also be directed to extend packing credit loan (export credit) in foreign currency either in dollar or euro to exporters (LIBOR plus 2%) to enhance competitiveness," the note added.

"If we are allowed export credit in the dollar or the euro, our total interest costs including the spread should be around 5%, while we are paying around 13% to 14% for loans in the domestic market," CITI secretary general DK Nair said.