

Another debt recast likely for textile cos

With investments reduced to a trickle, finance & textile ministries to discuss proposal with RBI and IBA today

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A slowdown in investments in the textile and clothing industry and increasing instances of defaults on loan repayment have prompted the government to look at the demand for yet another loan recast for the sector.

The finance and textile ministries will discuss the proposal with officials from the Reserve bank of India (RBI) and the Indian Bank Association on Wednesday, official sources told *FE*.

The T&C sector, the largest employment provider after agriculture and a major contributor to the country's export basket, has for the last few months been in doldrums owing to high raw material costs and slump in key export markets.

Textile minister Anand Sharma had earlier written to finance minister Pranab Mukherjee for the restructuring of the textile companies' loans as well as extending a 2% interest subvention announced by Mukherjee for

SMEs to the bigger garments and knit-wear units.

Textile secretary Rita Menon told *FE*: "The issues will be deliberated in the inter-ministerial steering committee of the technology upgradation fund scheme (TUFFS) on Wednesday."

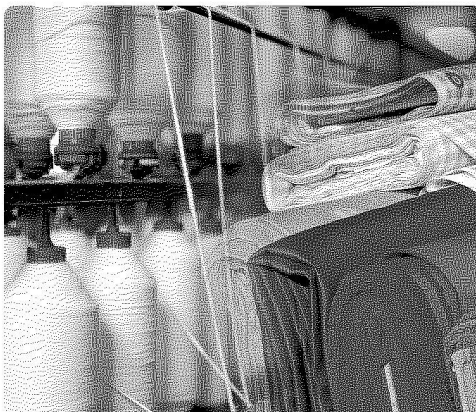
TUFFS is a scheme that involves an interest subsidy for loans taken for specified modernisation activities in the T&C sector. It has played a key role in driving investments of ₹2 lakh crore in the sector over the last 10 years. Nearly half of this is debt.

"There has been a slow down in investments this year. As against ₹1,972 crore provided for TUFFS loans for 2011-12, not even ₹500 crore is likely to be used," said Menon. "Interesting to note is that there has not been any default in repayment of TUFFS loans so far, but given the current trends in profitability and cash flow, it can start any moment," she added.

The official noted that the condition of the textile firms has worsened since 2008.

"Out of 226 listed companies,

THE MISSING THREAD



Net profit (combined) of 226 BSE-listed T&C companies (₹ crore)

Year	Q1	Q2	Q3	Q4
2008-09	30.7	-240	-702	-296
2009-10	199	410	403	710
2010-11	615	1062	620	856
2011-12	-353	-489		

Source: CITI

187 (around 83%) have poorer results during H1 of 2011-12 compared to last year and 127 have net losses. Thus, the situation is substantially worse than that in 2008-09."

The ministry fears that this trend is expected to continue and even the third quarter will record an increased negative net profit.

The Confederation Of Indian Textile Industry (CITI) has suggested a few proposals, which include allowing a moratorium on repayment of the principal amounts against long-term loans for 24 months, effective from 1st July 2011, without asset reclassification or additional provisioning. This included repeated rescheduling and rescheduling of loans under CDR.

The extant loans may be converted into Working Capital Term Loans (WCTL) for a period of five years with a moratorium of six months. "The proposals have no revenue implications," CITI secretary general DK Nair said.

FE had earlier reported that Sharma has sought a moratori-

um 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.

The finance ministry had also earlier 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.

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 15% and fabric output 19% during the April-October period from a year earlier.

CITI also estimates that 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 of ₹6,500 crore to textile mills.