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Fresh push to loan restructuring in textile sector on cards

Banikinkar Pattanayak

New Delhi, Apr 25: The textile ministry will soon approach the finance ministry and the Reserve Bank of India afresh for the restructuring of loans to the sector, after the central bank objected to the rescheduling of the debt late last fiscal.

Bank of Baroda Capitals has been hired to make recommendations for debt restructuring and is asked to finalise a report within around two weeks, industry and trade sources told *FE*. It has already held some meetings with the Confederation Of Indian Textile Industry and the Southern India Mills' Association and some more meeting will follow before the report is completed, the sources added.

In November, commerce and textiles minister Anand Sharma had written to finance minister Pranab Mukherjee for the restructuring of loans as well as interest subsidy to the garments and knitwear sectors. 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. But since dozens of mills had already been granted loan restructuring during the sub prime crisis in 2008-09, the RBI was not keen to tweak its prudential norms that stipulated any repeated rescheduling of loans be declared non-performing assets.

However, sustained liquidity crisis in the labour-intensive sector, which employs 35 million, has forced the ministry to pitch for debt restructuring again.

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

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. Moreover, the government's restrictions on cotton yarn export at 720 million kg in the 2010-11 fiscal to boost domestic supplies resulted in a loss of ₹11,000 crore to the textile industry, according to an estimate by CITI.

Although apparel exports between April and February 2012 rose 19% to $12.14 billion due to an initial pick-up, the overall textile and apparel exports target of $33 billion for 2011-12 will have been missed, said industry executives. The government expected the exports to rise in 2011-12 as demand seemed to have returned after the global financial turmoil in 2008, but the debt crisis in Europe hurt shipment prospects.

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Cotton reserve plan distorts market, says CAI

fe Bureau

New Delhi, Apr 25: The Cotton Association Of India (CAI), the apex body of traders, on Wednesday opposed the government's plan to create a strategic cotton reserve of 2.5 million bales for exclusive sales to cash-strapped textiles mills.

Earlier this month, the government directed state-run Cotton Corporation Of India (CCI) to buy cotton at market prices from farmers. The idea was to ensure prices for farmers by creating demand while keeping supplies for mills, struggling to stock up due to a liquidity crunch, for off-season use.

"If the problem targeted to be addressed is non-availability of funds with the textile mills to buy and stock cotton, it would be appropriate to address the same through banking channels, Reserve Bank of India and the finance ministry rather than creating a scheme which distorts the market and unsettles other sectors of the cotton value chain," CAI president Dhiren Sheth said in a statement.

He also said that the government may have to cough up as much as ₹5,500 crore, including storage and transportation costs, to create the reserve and cautioned that the CCI will have to bear the losses, which will arise out of fluctuation in prices. However, a senior textile industry executive said, "Traders are worried because they don't want competition in cotton purchases. After pitching for lifting of ban on fresh cotton export registration, supposedly to ensure fair prices to farmers, they should not be complaining about cotton purchases for the reserve, which are boosting farmers' returns by creating demand in the market."