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Textile units await debt recast plan implementation

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COIMBATORE: The Union Government's approval of a debt restructuring package for the textile sector last month brought hopes of revival to the ailing units across the textile value chain.

However, one month since then, many textile mills, garment and processing units fear that their bank loans could turn into non-performing assets (NPA) as the package is yet to be implemented.

According to a study conducted by BOB Capital Markets, the total outstanding debt of the sector is estimated at Rs.1.56 lakh-crore and loans worth Rs.35,000 crore need restructuring (which includes both term loans and working capital loans). The debt restructuring package is to be considered by banks on a case-by-case basis.

This will include a two-year moratorium on term loans, special provision in the NPA norms to avoid asset reclassification and conversion of the working capital eroded into working capital term loans.

The Indian textile industry faced problems in 2008-09 when it was hit by the global economic slowdown and a large section of the sector went in for debt restructuring. Troubles surfaced again last year. For the knitwear industry in Tirupur, the processing sector was hit by pollution-related issues. For the textile mills, suspension of yarn exports in January 2011, fluctuations in cotton prices, and slump in demand for yarn led to devaluation of stocks and crunch in working capital availability.

High interest rates almost nullified the benefits of the Technology Upgradation Fund Scheme

For instance, Kumar owns a 16,800-spindle textile mill near Coimbatore. In April 2011, he had cotton and yarn stocks worth Rs.8.2 crore. Cotton prices were more than Rs.60,000 a candy and he had three months stock of the raw material.

In May 2011, cotton prices fell by nearly 50 per cent and the value of his stocks came down.

Apart from these, high interest rates almost nullified the benefits of the Technology Upgradation Fund Scheme and power shortage resulted in lower capacity utilisation, mainly in Tamil Nadu, which has nearly one-third of the country's textile business.

Though individual banks can take up restructuring, they need special dispensation in the NPA norms of the Reserve Bank of India (RBI) for a repeat restructure without asset reclassification.

For many like Kumar, June 30, 2012, is a crucial time. If there is no notification from the RBI on the debt restructuring package by then, there is every possibility of the loan account turning into a non-performing asset, especially those that defaulted in repayment in the March 2012 quarter.

Though the market has improved now, the accumulated losses of last year can be offset only with continuous profitable operation. The units will have to repay loans and have funds for day-to-day operations, too. They need adequate funds to continue operations.