International Journal of Advanced Research and Development
ISSN: 2455-4030
Impact Factor: RJIF 5.24
www.advancedjournal.com
Volume 2; Issue 5; September 2017; Page No. 224-226

Impact of demonitisation on Indian textile industry

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Abstract
Making news from the day it came into effect, the Demonitisation of the Rs 500 and Rs 1000 currency notes by the govt. of India has had a major effect on almost all the major industries in the country. This scheme has received mixed reactions till now as some industry experts say that the sales are badly hit and this would continue to effect the new booking season. However, some feel that it’s a short span of hardships which will be overcome in some time. But one thing is sure — this scheme has impacted the textile industry. And as the textile industry is the second largest industry in India, the effect of demonitisation on it is something that many are eager to know about.

Keywords: demonitisation, textile industries, traders

Introduction
Eighty percent of the Indian textile and clothing industry is in the decentralized sector, in the SME sector, and that tells the story of the impact that demonitisation is having on the country's second largest industry. There are reports of 70-75% of powerloom units having stopped production in the various textile clusters, as most of the transactions happening were in cash.Traders and manufacturers are reporting a pile up of stocks across the value chain, and companies are not in a position to collect receivables resulting in a serious impact on cash flows. Manufacturers are unable and unwilling to buy inputs, due to limited liquidity.
The retail consumer too has little liquidity to splurge on clothes, which will slow down the demand downstream.
While the liquidity crunch is temporary, this could impact the textile industry for the next 2-3 quarters. Demand for textiles and clothing in the market even before the demonitisation has been dull. The situation has worsened after November 8.

The pain areas for the Indian textile industry
1. Textile jobs, production, productivity affected
Almost 70-80% of the textile workers in most of the clusters are paid weekly wages in cash. Majority of these workers do not have bank accounts, are migrant labour, who stash their savings at home.
Cash-strapped companies are unable to pay workers their wages. And even those who paid their workers an advance of 2-3 months to avoid changing the scrapped notes, have had to allow workers to queue in front of banks to handle cash and change notes. This has severely impacted production and productivity in the textile production clusters.
Moreover, many of the migrant workers have left for their villages to take care of their money, and lay-offs are rampant too, as mills are cutting production.

2. Textile industry asks for government help
The textile industry has been quick to ask the government for moratorium on repayment of heavily subsidised loans and interest. "The withdrawal of around 86% of the currency in circulation and issuance of less than 10% of currency in the denomination of Rs 2,000 has led to severe shortage of funds for regular operations, purchase of raw material, sale of finished goods and also the purchase of the regular requirements of stores, spares, and accessories in the textile industry," said M Senthil Kumar, chairman, Southern India Mills' Association (SIMA).
"Textile retail showrooms and shops across the nation are hit by the cash crunch and low sales as customers are starving for cash and spending the rationed currency available with them only for emergency purposes," he stated.
"It might take at least six months for the textile industry to reach normalcy in its performance," the SIMA chairman said.
Since the performance of the textile units in the post-demonetisation period has aggravated, it is essential to increase the period for classifying existing NPAs (non-performing assets) from 90 days to one year to avoid textile units turning sick, he said. The working capital limit should also be enhanced to 50%, he said. "Cotton arrivals to the market came to a grinding halt during the first 10 days after demonetisation and has currently improved to the level of 50%-60%," Senthil Kumar stated.
"Considering the grave situation of the textile units, the government may consider deferring all tax payments for six months," he said in a representation to the Union Textiles Minister Smriti Irani.
A large number of the workers in textile mills do not have savings bank accounts due to cumbersome procedures including submission of KYC (know your customer) details, the SIMA chairman said. "This discourages the migrant workers from opening savings bank accounts. Therefore, necessary direction may be given to banks to enable workers to open accounts instantly by showing any ID proof," he said.
The government had encouraged bank account openings under the Jan Dhan Yojana, with minimum documents. And has

once again addressed this demand of the industry, and will start another campaign to encourage companies to help their workers to start bank accounts, as the government has notified that all salaries of all employees - contractual and permanent - will have to be paid into bank accounts.

3. TN spinning industry will be largely cashless by January - ITF

The Indian Texpreneurs' Federation (ITF) has carried out awareness programmes in member units to enlighten workers about cashless operations. "The response from the members and the working class is quite encouraging and we are confident that by January 2017, textile spinning industry of Tamil Nadu will become a substantially cashless economy," said Prabhu Damodaran, Secretary, ITF.

This is a much needed move in the Indian textile industry if it has to function smoothly from now on. The ITF too has asked for enhancement of working capital limit, reduction of interest rates on bank loans, and MEIS to cotton yarn exports.

4. Enhancement of working capital limit

Because of the demand slump, there is a greater need to hold the inventories till the demand starts picking up which can take at least 3-6 months. In the interim, as cotton season is also on, textile spinning industry is extremely starved for working capital because there is dire need to invest in inventories, both raw materials and finished goods.

Given this extraordinary situation, and also given the fact that banks are presently flush with cash, the ITF has requested that banks consider enhancement requests from textile spinners favourably, or grant one time working capital support finance for a period of six-nine months.

5. Reduction of interest rates for bank loans

Though reduction of bank interest rate is expected to take place sooner rather than later, the ITF wants that the same be expedited in the larger interest of the industry. The ITF further points out that banks have started linking the pricing for loans to the external rating obtained by the units, which has resulted in many units being sanctioned loans at very high interest rates. The ITF has asked for a short term action plan to reduce the loan interest rates to textile spinning sector which can prevent many units from becoming NPAs, and thereby saving thousands of jobs.

6. MEIS to cotton yarn exports

The ITF has also asked for extension of MEIS/IES benefit of 2% and 3% respectively for cotton yarn exports. The present glut in the local market is resulted in a huge pile-up of stocks. But demand in the export market is good provided the cost is competitive. The MEIS benefit will help in pushing up exports and in better management of the inventory situation.

7. Industry faces worker and liquidity crunch

Currently, most of the textile clusters in the country are facing not just a liquidity crunch but also a shortage of workers. Most of the workers are migrant labourers, who have gone back to their homes in their villages.

For instance, Tirupur employs about 500,000 people directly and does an annual business of Rs 40,000 crore. While Rs 25,000 crore comes from exports, the rest comes from the domestic business. Factory owners said that though business-to-business transactions are mostly cashless, payments to labourers are predominantly in cash. In Tirupur, around 75% of the over 500,000 workers are paid weekly in cash and the rest are paid at the end of the month. But the cash-strapped cluster is now unable to make payments, and is `helpless' as workers are heading back to their villages.

This has impacted production and deliveries during the busy months of November and December. Many exporters in Tirupur are expecting their business revenues to fall by 30-40% this year, due to the demonitisation which comes when global apparel consumption is facing a downtrend.

8. Surat faces a similar situation

There are 6.5 lakh powerlooms in Surat, employing 7 lakh workers. There are around 400 textile processing units employing over 3 lakh workers. Surat produces 40 million meters of fabric per day.

Around 95% of the wages to the textile workers are paid in cash. Very few big units have opened bank accounts of their employees. Large number of migrant workers employed in the country's largest man-made fabric (MMF) sector have started moving out of the city after the weaving and textile processing units drastically cut down production by almost 70% due to severe liquidity crisis after demonetisation.

Powerloom weavers claim that over 50% of the workforce has left for their hometowns and those who had gone to their natives for Diwali vacation are yet to return. At present, the industry has less than 25% workers, and they too are waiting to leave once their salaries are done before December 1. Besides, layoffs are rampant in the cluster as units are able to run barely one shift, due to negligible demand in the market.

"The situation is grim for Surat's textile sector. The industry's production capacity has reduced by almost 70% since November 8. We pay the wages in cash but as the old notes have become invalid and cash supply is limited, we won't be able to cater to the workers by the end of November," said Jitu Vakharia, president of South Gujarat Textile Processors Association (SGTPA).

Ramnaresh Yadav, a labour contractor in Pandesara said, "Many units have paid advance wages to the workers. On daily basis, the workers are standing in long queues to exchange old notes. Once they get the money, they move out of the city, because they have to exchange old currencies at home as well."

Leader of the weaving community, Devesh Patel, said, "Over a dozen of my workers left for their hometowns in the last three days. They had their life savings in form of cash in their houses. Since the old notes have been scrapped, they have rushed to exchange them with new currency. Now, they may come only after December 15."

Ashish Gujarati, president of Pandesara Weavers Association said, "We are running our units eight hours a day. We can't stop the workers from leaving the city due to the present situation."

9. Textile mills seek measures to pay workers, even as stocks pile up.

The main demand of many of the textile mills is the need for arrangements so that the mills are able to pay the workers, especially the casual workers who get their wages in cash.

According to sources, the bigger mills have opened bank accounts for the workers, even the trainees, and pay the salary in the accounts. But, weavers and yarn agents do not want to lift the yarn from the mills now, especially those in the northern states. Some of the weaving centres have come to a standstill and this has hit the mills here.

Yarn stocks are piling up. In the case of cotton too, the arrivals are just picking up and ginners are unable to pay farmers in cash. Hence, farmers are not bringing cotton to the markets. There is a pressure on raw material and sales front. The government should look at easing the pressure felt by businesses, the spokesperson said.

In some clusters, lorry movement is hit because of the demonetisation. Very few lorry owners are willing to accept payment by cheque. Further, most mills are purchasing cotton only for their immediate needs and cotton prices have also firmed up.

Findings and Conclusion

Expected to cross the value of $2.5 billion by the year 2021 thanks to a surge in industrialization, increased consumption of textiles in engineered products, and rising awareness about the benefits of using textile chemicals, the response of the textile industry to demonetization has been largely a mixed one. On the one hand, the organized textile sector has welcomed the decision of demonetization as it would streamline the transaction system and result in a transparent business transaction with overseas traders. But at the same time, the cash crunch has affected the purchase of new yarns and fabric, especially in the case of the cotton textile industry. The present cash crunch will also streamline the transaction system, resulting in a transparent business transaction with overseas traders as well. Analysts see this move by the Indian government as a positive step towards not only curbing the black money market but moving towards the aim of ‘Digital India’ – as now there will be an increase in the usage of electronic clearing systems for making payments throughout the country.

No doubt demonetization has temporarily halted the purchase of new cotton in India, leading to deflationary pressure, which in turn has reduced the cotton prices for a short duration. However, given the long-term benefits of the demonetization move, analysts are sure that the Indian textile industry will bounce back to normalcy very soon.

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