

Crisis in Spinning Industry- Mills to be Closed on All India Basis

On 23rd May 2011

1/3rd Production Cutback of Cotton Yarn from 24th May Onwards

New Delhi, Wednesday, 18th May 2011. Faced with an extremely grim situation arising out of huge decline in demand and prices of cotton yarn and consequent piling up of huge inventories, CITI organised a meeting of all major textile associations of India in New Delhi on 18th May 2011 to discuss the problems being faced by the sector.

While lamenting that the situation is unprecedented in the textile industry, it was unanimously decided in the meeting that spinning mills in India would be closed on 23rd May 2011. From 24th May onwards, it was decided to have a production cut back of 33.33 percent (1/3rd) of existing daily production. Such a drastic step was needed to ensure a reasonable price and boost up the sagging demand for the cotton yarn. It was also decided that a review meeting off the stakeholders will be called on 1st week of June 2011 to take stock of the price and demand position and to chalk out further action. "Our sincere hope is that with the support of the government and cutback in production the crisis situation will be blown over and the industry will be back on the rail" textile leaders opined.

Briefing the press today in New Delhi along with heads of other textile associations, Mr. Shishir Jaipuria, Chairman, Confederation of Indian Textile Industry (CITI), said that a combined representation has already been sent to the Textile Minister, Commerce Minister and senior officials in the ministries of Textiles, Commerce and Finance highlighting the current problems of the textile industry. Mr. Jaipuria explained that short-sighted Government policies with reference to both cotton and cotton yarn in the recent past have converted a profitable spinning industry into a crisis ridden sector during the last few weeks. The leaders of various associations explained that the following urgent steps would be required to prevent the current crisis from deepening further.

- (i) The Drawback facility on export of cotton yarn was withdrawn on 29th April, 2010 and the DEPB benefits on export of cotton yarn was withdrawn on 21st April, 2010. Both these facilities may be reinstated with retrospective effect immediately.
- (ii) An Excise duty of 10.30% was imposed on manufacture of garments. We request the government to withdraw the Excise duty on garments to perk up the consumer demand. This should be done at least till the GST is introduced.
- (iii) An announcement may be made by Government that no restrictions would be placed on export of cotton yarn in future so that mills can start winning the confidence of their buyers which will now take a long time since the damage has already happened and buyers have moved to the competitors. This will also help in resuming the investments in the production of cotton yarn.
- (iv) Providing 2% interest subvention for all textile and clothing products i.e. all products falling under chapters 50 to 63, excluding fibres.
- (v) Since the spinning mills are incurring huge cash losses, government may consider giving one year moratorium period for repayment of loans and interest and also exempt this period for TUF eligibility so that NPAs are avoided.
- (vi) Permit conversion of a portion of CC limits into term loans to fill up the gap in the CC limits caused due to sudden fall in the prices of unsold yarn and cotton and such loan should be given five years repayment period with normal interest rate and it should not affect the credit rating of such units resulting in proliferation of Non Performing Assets (NPAs).

- (vii) Address the pollution issues prevailing in various dyeing clusters particularly Tirupur and other places in Tamil Nadu so that the domestic garment industry works in full capacity which in turn boost yarn sales.

Mr. Shishir Jaipuria observed that the present predicament of the textile industry is due to a combination of factors. The Government abruptly imposed a restriction on export of cotton yarn to 720 million kgs for the year 2010-11 based on an unsubstantiated complaint made by cotton yarn users of high prices and low availability. Consequently, there was no export of cotton yarn for over two and a half months from 15th January, 2011 to 31st March 2011. This led to a huge stock of unsold cotton yarn with the mills as on 31st March 2011, considerably higher than the figures released by the Textile Commissioner in the last meeting of the Cotton Yarn Advisory Board (CYAB).

Post withdrawal of restrictions on export of cotton yarn from 1st April 2011, exports have been very tardy since non-shipment of Indian cotton yarn for over two months have diverted several regular importers of the Indian cotton yarn to other sources. Cotton yarn exporters are finding it extremely difficult to win back these buyers now. On the top of it, immediately after the withdrawal of restrictions, the mills, which have accumulated inventories have off loaded them at a reduced price internationally, which has led to price decline. Even that did not help boosting the demand on account of the steep decline in demand for cotton fabrics internationally. "Our understanding is that exports of cotton yarn during the last five weeks have amounted to less than 50 million kgs. as against 70-75 million kgs. per month, which was being exported last year before the restriction was imposed," says Mr. Jaipuria.

Mentioning that the textile mills are holding a stock of around 500 million kgs, Mr. Jaipuria observed that this has completely eaten into their working capital. Faced with cash losses and negligible working capital, mills are finding it impossible to buy cotton and this has resulted in a decline in cotton prices in the market. However, he added that decline in cotton prices is no indication of adequate availability.

The press conference was addressed by senior functionaries of CITI, Southern India Mills Association (SIMA), North India Textile Mill Association, Texprocil, Indian Spinners Association (ISA), Tamil Nadu Spinning Mills Association, Andhra Pradesh Spinning Mills Association, South India Spinners Association, Annur Spinning Mills Association, Madurai Spinners Association and Karur Textile Forum.

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