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# MINISTRY OF TEXTILES
# SICKNESS/CLOSURE OF TEXTILE INDUSTRY

ESTIMATES COMMITTEE

1998-99

TWELFTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

# FOURTH REPORT

# ESTIMATES COMMITTEE
# (1998-99)

## (TWELFTH LOK SABHA)

## MINISTRY OF TEXTILES

# SICKNESS/CLOSURE OF TEXTILE INDUSTRY

*Presented to Lok Sabha on 21.12.1998*

LOK SABHA SECRETARIAT
NEW DELHI

*December, 1998/Agrahayana, 1920 (Saka)*

3994/LS/F—1-A

E.C. No. 1381

*Price* Rs. 36.00





Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Ninth Edition) and Printed by the Manager, Government of India Press, (PLU), Minto Road, New Delhi.

3994/LS/F—1-B

# CORRIGENDA TO THE FOURTH REPORT OF THE ESTIMATES COMMITTEE ON SICKNESS/CLOSURE OF TEXTILE INDUSTRY

| Page | Para | Line | For | Read |
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| iii | In the Heading | 1 | POSITION | COMPOSITION |
| 11 | 1.47 | 4 | textiles | textile |
| 16 | 2.10 | 1 | enure | ensure |
| 17 | 2.12 | In the beginning above the table Add "Out of the 41 private sector mills, 12 mills were registered with BIFR as on 24.3.98. Their position with BIFR is as under:-" | | |
| 25 | 2.54 | 3 | order | orders |
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| 64 | Sl.No.17 | 10 | by financial | financial |
| 72 | Sl.No.42 | 4 | 584.63 crore | Rs.584.63 crore |
| 72 | Bring Sl.No.43 against Para No.3.48 | | | |

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# POSITION OF THE ESTIMATES COMMITTEE (1998-99)

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# INTRODUCTION

I, the Chairman of Estimates Committee, having been authorised by the Committee to submit the Report on their behalf present this Fourth Report on the Ministry of Textiles—Sickness/Closure of Textile Industry.

2. The subject was selected for detailed examination by the Estimates Committee (1994-95). The Estimates Committee (1995-96) considered the replies given by the Ministry of Textiles to the detailed questionnaire issued on the subject from time to time and other material received from National Textile Corporation Subsidiaries during study tours. The Committee took evidence of the representatives of the Ministry of Textiles on 14th December, 1995. The Committee took further evidence of the representatives of the Ministry of Textiles, Ministry of Finance (Department of Economic Affairs) and Ministry of Labour on 16th January, 1996 on the subject. The Estimates Committee (1996-97) and (1997-98) decided to continue with the examination of the subject. The Committee wish to express their thanks to the officers for placing before them the detailed written notes on the subject and for furnishing information desired in connection with the examination of the subject. The Committee also appreciate the frankness with which the officers/representatives shared their considered views, perceptions and constraints with the Committee.

3. The Committee would also like to express their gratitude to the Estimates Committee (1994-95, 1995-96, 1996-97 and 1997-98) for the able guidance and right direction provided by them in obtaining information and taking evidence for indepth and comprehensive study of the subject.

4. The Report was considered and adopted by the Committee at their sitting held on 3rd November, 1998.

5. The Report is divided into three chapters each devoted to specific aspects of the subject. The Committee have, *inter-alia*, made the following important observations/recommendations:

(i) As on 31.3.98, a total of 220 mills have been closed and 2,60,343 workers rendered unemployed. All the mills have been voluntarily closed and no mill has sought permission under the Industrial Disputes Act, 1947 for closing it down permanently. However, 124 mills have been temporarily closed down avoiding prior permission required under Section 25(O) of the Industrial Disputes Act, 1947. This is a matter of deep concern to the Committee.

(ii) There is an urgent need to arrest sickness in the industry and steps should be taken in the right direction. Textile sector should be assigned an important place and all-around efforts should be made to free it from constraints/problems which are hindering its development.

(iii) Keeping in view the fact that obsolete technology is the main factor behind the sickness of the textile industry and modernisation being a continuous process, the Committee stress upon the need to update technology in textile mills and for taking urgent steps necessary to improve the failing health of the textile industry. Efforts should be made by the owners for upgradation of technology for modernisation of their mills. Government should also consider incentives such as availability of bank credit at lower interest rate, etc. to encourage investment for modernisation of mills.

(iv) Stringent action should be taken by the State Government concerned against the mills which have been closed down without permission, thereby throwing labourers out of employment without payment of their dues.

(v) Serious attention needs to be given towards problems leading to the closure of textile mills in various parts of the country. Further, issues arising out of closure of textile mills viz. unemployment of workers, etc. need to be attended to on priority basis. Concerted steps should be taken to protect the interests of the labourers of these closed textiles mills.

(vi) Suitable institutional arrangements need be made in the Ministry of Textiles for the following:

(a) to maintain data regarding closures, etc. of textile mills in the country and to have a mechanism for smooth flow of information regarding closure of textile mills among the State Governments, Ministry of Textiles and Ministry of Labour;

(b) to maintain data regarding detection of sickness at the incipient stage in the textile industry and to initiate suitable preventive measures to minimise/arrest sickness which may lead to closure of textile mills;

(c) to detect and check self-created sickness in the textile units by the unscrupulous managements; and

(d) to maintain data in respect of sickness in the private sector mills to enable the Ministry to have proper information on the real state of health of the textile industry in the country.

(vii) Government should initiate concrete measures necessary to tackle the problem of sickness in the textile industry, to improve the techno-economic viability of the industry, to prevent sickness and to make it competitive in the international market.

(viii) In view of tremendous growth in the textile industry in the private sector, especially in the powerloom sector because of its greater cost effectiveness and adequate availability of cloth in the country the Government should review their role in running of NTC mills and consider the feasibility of disinvestment and privatisation of these NTC mills.

(ix) Interest of workers declared surplus on modernisation of NTC viable mills and rendered jobless on closure of unviable mills should be adequately protected by offering them attractive VRS package and also similar compensation package to retrenched workers of textile units destined for closure.

6. For facility of reference, the observations/recommendations of the Committee have been printed in thick type of the body of the Report and have also been reproduced in consolidated form in Appendix of the Report.

NEW DELHI;
*December* 2, 1998
*Agrahayana* 11, 1920 (S)

MADHUKAR SIRPOTDAR,
*Chairman,*
*Committee on Estimates.*

# CHAPTER I

## SICKNESS/CLOSURE IN TEXTILE INDUSTRY

**Introduction**

1.1 The Textile Industry in India is ancient, dating its origin to over a 1000 years age and has a unique place in the economy of our country. The textile industry is a pioneering industry in the country. Being one of the largest and vital industries, its contribution to industrial production, employment and export earnings is very significant. The industry generates tremendous employment which is a source of livelihood for millions of people. Its exports contribute a substantial part of our total foreign exchange earnings. The healthy development and rapid growth of this industry is, therefore, of vital importance.

**Capacity**

1.2 The textile industry has been expanding from year to year. The total number of textile mills in the country as on 31.3.98 is 1767 (1489 spinning and 278 composite) with an installed capacity of 33.53 mn spindles, 2,91,000 rotors and 1.24 lakh looms. Out of these 1767 mills, 192 are in the public sector, 151 in cooperative sector and 1424 are in private sector employing labour force of about 10 lakhs.

**Definition of Sickness**

1.3 According to Section 3(1) of the Sick Industrial Companies (Special Provisions) Act (SICA), 1985 as amended from time to time, a Sick Industrial Company means, an industrial company (being a company registered for not less than five years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

1.4 As regards calculating the net worth, the Executive Director, IDBI stated during evidence:—

> "As far as the Act is concerned, the net worth is calculated as per the normal accounting standard whereby the historical cost is taken into account for the purpose of defining the net worth. We do not take into account the revaluation of land and building for the purpose of calculating net worth."

**Magnitude of Sickness**

1.5 As regards magnitude of sickness in the textile industry, out of total 1767 mills, 220 cotton/man-made fibre mills (127 spinning and 93 composite) with an installed capacity of 5.75 mn spindles, 10813 rotors and 55298 looms were reported to be closed on 31.03.98. The details of closure of cotton/man-made fibre textile mills alongwith their installed capacity since 1990-91 to March 1998 are as under:—

| Year/Month end | Spinning | Composite | Total | Spindles (000) | Rotors (No.) | Looms (00) | Employees on roll (000) |
|---|---|---|---|---|---|---|---|
| 1990-91 | 50 | 55 | 105 | 3126 | — | 352 | 161 |
| 1991-92 | 68 | 62 | 130 | 3823 | 888 | 409 | 194 |
| 1992-93 | 64 | 59 | 123 | 3520 | 1776 | 366 | 178 |
| 1993-94 | 75 | 57 | 132 | 3590 | 3232 | 362 | 173 |
| 1994-95 | 74 | 58 | 132 | 3652 | 3904 | 366 | 178 |
| 1995-96 | 100 | 71 | 171 | 4668 | 6589 | 450 | 228 |
| 1996-97 | 118 | 91 | 209 | 5469 | 9270 | 542 | 252 |
| April 1997 | 123 | 92 | 215 | 5549 | 13355 | 542 | 255 |
| March 1998 | 127 | 93 | 220 | 5750 | 10813 | 553 | 260 |

**Registered with BIFR**

1.6 As per the information obtained from the Board for Industrial and Financial Reconstruction (BIFR) there were 333 Textile Mills registered with BIFR as on 24.3.98. The State-wise figures of number of mills registered with BIFR are given below:—

| Name of State/UT | No. of Mills |
|---|---|
| Andhra Pradesh | 23 |
| Assam | 03 |
| Bihar | 03 |
| Chandigarh | 01 |
| Dadra and Nagar Haveli | 02 |
| Gujarat | 67 |
| Haryana | 14 |
| Karnataka | 14 |
| Kerala | 05 |
| Madhya Pradesh | 16 |
| Maharashtra | 62 |
| New Delhi | 02 |
| Orissa | 04 |
| Punjab | 07 |
| Rajasthan | 18 |
| Tamil Nadu | 46 |
| Uttar Pradesh | 34 |
| West Bengal | 12 |
| TOTAL | 333 |

**Causes of Sickness**

1.7 The main reason for sickness/closure in the textile industry could be attributed to the structural transformation as a result of which the composite units in the organised sector are losing ground to powerlooms in the decentralised sector due to their greater cost effectiveness.

1.8 The other reasons for sickness/closure are low productivity of both machines and labour, lack of modernisation, excess capacity, inability to exploit the export market, increase in the cost of inputs particularly different raw materials, difficulties in getting timely and adequate working capital finance and internal factors. The mills have also reported financial difficulties, labour problems, poor management practices or even "hereditary" sickness in the mills etc., as other reasons for closure of the mills.

1.9 When asked to elaborate about each of the above factors responsible for sickness/closure in textile industry, the Textile Commissioner during evidence stated as under:—

> "Weaving sector of the composite mills became uneconomical due to various reasons like provisions in labour laws, amenities to the workers and subsidised food. Due to all these reasons the overhead became very high.
>
> Therefore, the production of cloth in mill sector is coming down as compared to the powerloom sector production. Now, 72-73 per cent of cloth is being produced in the powerloom sector. This was one structural responsibility for sickness. This is also true with even the Government mills, the NTC mills. Weaving Department has become uneconomical."

1.10 Giving other reasons leading to sickness, the Textile Commissioner added:—

> "Others are financial problems, strikes, internal reasons like the disputes between the partners, etc. Periodically workers are going on strike for bonus or for pay hike, etc. There are disputes also between partners, that is between father and son or between brothers, etc. These are the reasons for sickness or for closure. Lockouts and power cuts are also the reasons. It may be that any of the reasons may be a cause for sickness or it may be a combination of them."

1.11 As regards reasons for sickness/closure in the private sector textile industry, the Joint Secretary, Ministry of Labour during evidence stated:—

> "In the private sector, the very reason for sickness is the diversion of working capital for payment of wages until such time as the net worth is eroded and it becomes a BIFR case. The private sector employer mobilises all the reasources necessary to pay the wages

and that is one of the main reasons why the industry becomes sick, because when they are not able to meet the liability the net worth gets eroded eventually."

1.12 The Ministry of Textiles in a note stated in regard to sickness of mills in the States of Gujarat, Maharashtra, U.P. and Tamil Nadu as under:—

"The textile industry is mainly situated in the States of Gujarat, Maharashtra and Tamil Nadu. The number of Textile mills in these States is much more as compared to other States. Consequently, the number of sick mills in these States are more, as compared to other States. It may also be stated here that majority of composite mills are situated in Gujarat and Maharashtra and such mills have been not faring well due to various reasons such as competition from powerlooms, which enjoys certain cost advantages *vis-a-vis* mill sector, outdated and obsolete machinery with low level of production. As a result, many composite mills have been making losses and hence the number of sick mills in these States appears to be more."

1.13 Another reason which has led to closure/sickness of mills by the management in metropolitan towns is because of land under mill becoming prime urban land. An amendment in Development Control Regulation by the State Government of Maharashtra in 1991, under which sick and closed mills are allowed to prepare redevelopment plan of entire mill land with the permission of BIFR has led to closure of mills in Bombay. Incidentally Government of Maharashtra have allowed sale of land, building under Development Control Regulations for Greater Bombay, 1991 to the following potentially viable sick mills as a part of package of measures recommended by BIFR: (1) Matulaya Mills (2) Kamala Mills (3) Raghuvanshi Mills (4) Shree Ram Mills (5) Modern Mills (Sale of open land) (6) New Vinod Silk Mills—Sale of constructed building. This has especially led to speculative activity in the real estate and many mill owners have tended to close down their mills with the ultimate objective of selling land for profit.

**Closure**

1.14 Out of 220 cotton/man-made fibre mills reported to be closed as on 31.3.98, 170 mills have been temporarily closed while 50 mills were closed under liquidation rendering 2,60,343 unemployed workers.

**Illegal Closure of Mills**

1.15 According to Section 25(O) of the Industrial Disputes Act, 1947, the industrial units have to take permission from the concerned State Governments before closure of their units. The closure of mills without legal permission from the State Governments could be termed as illegal closure.

1.16 The Committee wanted to know the number of private mills closed with permission and without permission of the respective State Governments and the reaction of the Government thereto. In this connection, the Joint Secretary, Ministry of Textiles informed during evidence:—

> "The total number of spinning and composite mills is 1451 and the total number of mills that are closed as on 30th September, 1995 is 159 of which 124 are temporarily closed and 35 are closed under official liquidation."

1.17 In a post evidence note furnished in September, 1996, the Ministry have stated:—

> "124 mills were temporarily closed mainly because of frequent lockouts, strikes, financial difficulties and cut in power supply. No mill was permanently closed under I.D. Act."

1.18 Detailing the measures the Central Government/State Governments are taking to check the practice of closure of mills without the legal permission of the respective State Governments under Section 25(O) of the ID Act, 1947, the Ministry in their reply stated as under:—

> "According to the Industrial Disputes Act, 1947 Central Government is the appropriate Government for Central Public Sector Textile Mills and for the rest State Governments are the appropriate Government for the purpose of closure of mills. Ministry of Labour is not aware of any closure of Central PSU without permission under Section 25(O) of ID Act. It is for the State Government to take necessary measures for checking the practice of closure of mills without permission where State Governments are the appropriate Government."

1.19 In regard to penal action provided under the Industrial Disputes Act, 1947 against the management of 129 illegally closed mills, the Ministry stated:—

> "Section 25(R) of ID Act, 1947 provide for stringent punishment for violating Section 25(O) [or 25(P)] and Labour Inspectors of the State Government can take recourse to prosecution under Section 34. If there are genuine problems like sickness of industry, labour trouble, market fluctuations etc. and workers' interests are adversely affected, the appropriate Government can constitute a court of inquiry under Section 6 of ID Act relating to matters which it considers as connected with or relevant to an industrial dispute. The matter may be accordingly referred to court for inquiry u/s 10 (1) (b).
>
> The Central Government can also refer the matter for adjudication under Section 10(1-A) of the ID Act, 1947, considering it as a dispute covering a large number of industrial units involving a

> question of national importance and/or of such nature that industrial establishments situated in more than one State are affected. For this purpose it would be necessary to obtain various information from States to know the magnitude of the problem, etc."

**Detection of Sickness**

1.20 There is no machinery in the Ministry of Textiles to detect sickness in individual private textile mills at an incipient stage. The Ministry deals with policy issues which, *inter alia,* address the question of sickness in the textile sector. The policy initiatives of the Ministry are intended to help the sector to develop and grow on sound lines.

1.21 After the establishment of the Board for Industrial and Financial Reconstruction (BIFR), sickness in all industries including textile units are looked into by the Board. Under Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), the sick industrial companies are required to report to the BIFR.

1.22 According to SICA, sickness in industrial units (including textile units) are determined by their net worth position obtaining at the end of any financial year. According to Section 23 of SICA "if the accumulated losses of any industrial company have resulted in erosion of 50% or more of its net worth during the immediately preceding five financial years, these units will be considered to be potentially sick units."

1.23 Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985 was amended w.e.f. 1.2.1994 by adding new Section 23-A.

The objective is to ensure that in case the company does not report its sickness to BIFR, other involved agencies—banks, financial institutions, Central Government, State Governments or the State level institutions or the Scheduled Banks may report the facts of any such incipient sickness to the Board so that necessary steps could be taken to arrest the sickness. It is expected to ensure timely detection of sickness and provide for remedial measures so as to arrest growth of sickness in the initial stages itself.

1.24 Asked whether any guidelines have been issued by the Government in this regard, the Ministry of Textiles stated that no such guidelines are required under the Act.

1.25 A monitoring and surveying section exists in the Office of Textile Commissioner to scrutinise the returns of the textile mills with the view to detecting signs of sickness so that suitable action can be taken.

1.26 Enquired during evidence whether the Ministry had any machinery to detect sickness of a particular mill at its incipient stage, the Joint Secretary, Ministry of Textiles during evidence replied:—

> "The hon. Members were saying that if one mill is not working profitably and is likely to fall sick, there should be some early warning system to forewarn about it. There should be mechanism

to forewarn that there will be sickness in the mill in another year or two. On this point I wish to state that there is no machinery to advise in this regard or monitor things in this regard.

Before 1985, the Government machinery had been surveying, getting some reports and trying to get some financial assistance here and there which was not a systematic and not a sound affair. That is why, in 1985 in the Textile Policy approved by the Government, it was laid down that there would be a proper mechanism for looking into the sickness in textile industry, not only in textile industry but in other industries also. They set up these agencies and they are set up by the Government in its wisdom. They are entrusted with this task. After the setting up of this agency we do not have an agency or mechanism to go around and find out which are the mills that are liable to fall sick. We at our own level try to help by trying to get some information but it is a drop in the ocean. There are mills which do not even part with this information."

1.27 The Committee enquied about the preventive measures taken by the Ministry of Textiles to avoid sickness of textiles mills at initial stage. The Textile Commissioner, explaining the position during evidence stated as follows:

"We used to go to the mills to collect balance sheets and other information before the nodal agency was set up. We used to examine, them, identify their weaknesses and refer their cases to financial institutions. All this was being done before the nodal agency was set up with the IDBI as the convener in 1986 under the 1985 Textile Policy. Later on, BIFR was given the task of identifying potential sickness. We on our part have not been monitoring the units on the same lines. We have still been pressing the mills to send us the information but they do not part with their balance sheets. It is very difficult for us to do this job now because we have no agency to enforce it."

1.28 Asked whether the Ministry of Textiles were able to arrest sickness of those mills by taking timely remedial measures, the Ministry in their reply stated:

"The measures to remedy sickness in industries are now determined by the BIFR."

1.29 In a subsequent note, the Ministry have informed that no case of incipient sickness in textile units has been reported to BIFR by financial institutions/Banks/State Governments etc. after the amendment.

1.30 As regards detection of genuineness of sickness of the mill, the Committee enquired whether there was any agency to stop/detect this cheating, the Textile Commissioner replied:

> "We do not have an institutional arrangement like this. It had not been there... Our Ministry do not go around and catch out the dishonest businessmen. This sort of agency is not there."

**Monitoring**

1.31 The Ministry of Textiles informed the Committee that monitoring the incidence of growing sickness in Industries (including textiles) is done by Financial Institutions and Banks.

1.32 Describing the mechanism available for the same, the Ministry of Textiles stated that the mechanism now available with the Central Government for tackling industrial sickness was through the BIFR. This equally applies to the textile industry also.

1.33 On being pointed out whether a monitoring machinery was not needed keeping in view the fact that sickness in the industry was the biggest constraint in the revival of the textile industry, to this Joint Secretary, Ministry of Textiles stated as under:

> "The Textile Ministry would be certainly concerned about any general sickness in the industry. It is not that we wish to absolve ourselves from our role. As far as monitoring or checking up the overall performance is concerned, we are doing our best in this regard. The Ministry takes all the initiatives and takes into account the overall scenario. The macro scenario and the structural transformation and adjustment that are taking place are taken into account. We take all measures and policy initiatives to respond to the changing scenario. The textile sector is extremely vibrant. We can have justifiable pride that of all the sectors in our industrial economy today, the textile sector is the one which has responded most admirably to the changing scenario in the world. We have a comparative advantage in many ways when compared to production of textiles in other countries. We have also made considerable progress in this regard. I agree that there is a lot more to be done. In terms of macro initiatives there is always a lot to be done, and the Ministry is continually alive to the problems faced by the textile sector.
>
> The Textiles Ministry is not involved in the monitoring of individual units except of course the public sector units. The Hon. Committee is looking at the textile sector as a whole, not only the Textiles Ministry. In Section 25 of the Sick Industrial Companies Act there is already a provision that you do not have to wait for a company's networth to be completely eroded. Even if the erosion is upto 50 percent, it is mandatory for the company to report the matter to the Board for Industrial and Financial Reconstruction. So, the Board for Industrial and Financial Reconstruction is the designated agency to go into it. I humbly wish to submit that as far

as the scrutiny or troublishooting for individual mills in the private sector is concerned, the Textiles Ministry does not have a mechanism to look into the balance-sheets to see whether there are signs of growing erosion of networth which would lead to 50% loss in the financial year."

1.34 The Ministry of Textiles in a subsequent note informed the Committee that the parameters like project capacity utilisation etc. of private mills were not maintained centrally.

1.35 Asked whether the Ministry could find out as to where the diversion of funds was taking place in private mills, the representative stated:

"It is an extremely difficult task for the Ministry to keep a tab on the individual mills."

## OBSERVATIONS/RECOMMENDATIONS

**1.36 The Committee note that the textile industry in India has been expanding from year to year. The total number of textile mills in the country as on 31.3.95 was 1395. The figure rose to 1767 as on 31.3.1998. Of these, 192 are in the public sector, 151 in the cooperative sector and 1424 are in the private sector deploying a total labour force of about 10 lakhs.**

**1.37 The Committee further note with concern that 333 mills have been registered with BIFR as sick units on 24.3.98 whereas 220 cotton/man-made-fibre mills (127 spinning and 93 composite) were lying closed as on 31.3.98. They have further been informed that 170 mills were temporarily closed while 50 mills were closed under liquidation.**

**1.38 The Committee find that one main reason for sickness in the textile industry is the structural transformation resulting in composite units in the organised sector losing ground to powerlooms in the decentralised sector on account of the latter's greater cost effectiveness. The Committee are further informed that other reasons for sickness/closure in textile industry are lack of modernisation, low productivity of both machine and labour, increase in cost of inputs and difficulties in getting timely and adequate working capital finance, etc.**

**1.39 The Committee are of the view that obsolete technology is the main factor behind the sickness of the textile industry. Modernisation by replacement of outdated machinery at the earliest is the need of the hour. The processing and weaving sectors, in particular, are in urgent need of technological upgradation. It would not only help in reduction of cost of production but also in improving the quality of the end product. In the opinion of the Committee these mills have not fallen sick overnight, they needed modernisation which was long overdue.**

**1.40 The Committee feel that there is an urgent need to arrest sickness in the industry and steps should be taken in the right direction. They are of the view that the textile sector should be assigned an important place and**

**all-round efforts should be made to free it from constraints/problems which are hindering its development.**

**1.41 The incidence of sickness is more pronounced in the States of Gujarat, Maharashtra and Tamil Nadu. The Committee note with concern that in metropolitan towns, land under mills are gradually becoming prime urban land and this has contributed to the decision of the management to close the mills with the objective of selling land for lofty profits.**

**1.42 Keeping in view the fact that modernisation is a continuous process, the Committee stress upon the need to update technology in textile mills and to take urgent steps necessary to improve the failing health of the textile industry. The Committee desire that efforts should be made by the owners for upgradation of technology for modernisation of their mills. Government should also consider incentives such as availability of bank credit at lower interest rate, etc. to encourage investment for modernisation of mills.**

**1.43 The Committee note that Government have taken steps for the healthy growth of the Textile Industry as a whole, but at the same time they would recommend that special attention and help to combat sickness should be given to the States of Gujarat, Maharashtra and Tamil Nadu where the backbone of the textile industry of the country is situated by identifying the specific problems faced by these States.**

**1.44 The Committee are informed that as on 31.03.98, a total of 220 mills have been closed and 2,60,343 workers rendered unemployed. The Committee, however find it surprising that all mills have been voluntarily closed and no mill has sought permission under the Industrial Disputes Act, 1947 for closing it down permanently. However, 124 mills have been temporarily closed down avoiding prior permission required under Section 25(O) of the Industrial Disputes Act, 1947. This is a matter of deep concern to the Committee.**

**1.45 The Committee note that according to the Industrial Disputes Act, 1947 Central Government is the appropriate authority for deciding on the closure of mills in so far as the Central Public Sector Undertakings including some concerned and for the rest, their respective State Governments are the appropriate authority *viz.* in Maharashtra there is Bombay Industrial Regulation Act for the purpose.**

**1.46 The Committee desire that stringent action should be taken by the State Government concerned against the mills which have been closed down without permission, thereby throwing labourers out of employment without payment of their dues.**

**1.47 Looking at the trend of closing down of the mills one after the other, the Committee feel that the closure of textile mills, if goes unchecked, would adversely affect the health of the textile industry and create multifarious problems including socio-economic in future. The Committee, therefore, desire that serious attention needs to be given towards problems leading to**

**the closure of textile mills in various parts of the country. Further, issues arising out of closure of textile mills *viz.* unemployment of workers, etc. need to be attended to on priority basis. Concerted steps should be taken to protect the interests of the labourers of these closed textiles mills.**

**1.48 The Committee note with concern that there is no machinery in the Ministry of Textiles to detect sickness in individual private textile mills at an incipient stage. After establishment of the Board for Industrial and Financial Reconstruction (BIFR), sickness in all industries including textile units, are looked into by the Board. Under provisions in Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985 all sick industrial companies are required to report their sickness to BIFR. Further, Section 23 of the Sick Industrial Companies (Special Provisions), Act, 1985, was amended w.e.f. 1.2.1994 by adding new Section 23-A to ensure that in case the company does not report its sickness to BIFR, other involved agencies may report the facts of any such incipient sickness in units to BIFR so that necessary steps could be taken to arrest the sickness. However, no case of incipient sickness in textile industry has been reported to BIFR by FIs/Banks/State Governments, etc. after the amendment. The position in reality may be quite different. The Committee feel that the intended objectives under Section 23A of the Sick Industrial Companies (Special Provisions), Act, 1985 for reporting incipient sickness in units to BIFR by the involved agencies are not being observed. That may be due to either reluctance on the part of the involved agencies like FIs/Banks, State Government authorities, etc. or lack of awareness of the provisions of Section 23A of SICA on the part of the lower rung of administration of these agencies. The Committee desire that the Ministry of Textiles should take up the matter with the Ministry concerned with the administration of SICA for issuing necessary instructions to the concerned agencies for observing statutory provisions for reporting incipient sickness in industrial units to BIFR.**

**1.49 The Committee are informed that a monitoring and surveying section exists in the Office of Textile Commissioner to scrutinise the returns of the textile mills with the view to detecting signs of sickness.**

**1.50 The Committee are unhappy to observe that there is practically no agency existing in the Ministry to keep a track of health of the textile industry in the country. There is no institutional arrangement to detect or check mischief on the part of the management where a textile mill is not actually sick but owners with their ulterior motives want to keep them sick. It is also strange that detection of sickness in textile units at an incipient stage is not known to the Ministry except on reporting by involved agency to BIFR as per provisions of the SICA, 1985 which in actual practice is not being done despite statutory provisions. The Committee are given to understand that the major functions of the Ministry of Textiles, *inter alia*, include regulation and development of the entire textile sector in the country. But with the present pathetic state of**

health of the textile industry there are doubts whether the Ministry of Textiles is performing the assigned functions as the emerging challenges demand.

1.51 The Committee recommend that suitable institutional arrangements may be made in the Ministry for the following:

(i) to have a detailed report on each and every textile mill in the country;

(ii) to maintain data regarding closures, etc. of textile mills in the country and to have a mechanism for smooth flow of information regarding closure of textile mills among the State Governments, Ministry of Textiles and Ministry of Labour;

(iii) to maintain data regarding detection of sickness at the incipient stage in the textile industry and to initiate suitable preventive measures to minimise/arrest sickness which may lead to closure of textile mills;

(iv) to detect and check self-created sickness in the textile units by the unscrupulous managements; and

(v) to maintain data in respect of sickness in the private sector mills to enable the Ministry to have proper information on the real state of health of the textile industry in the country.

# CHAPTER II

## REVIVAL/REHABILITATION

**Policy Measures**

2.1 Largely in pursuance of the Textile Policy of 1985, the Government of India has taken the following measures to tackle this problem:

(i) Setting up a Nodal Agency: To determine the potential viability of textile mills, the Government had set up a Nodal Agency with IDBI as convenor and representatives from the State Governments, RBI, Financial Institutions and the Textile Commissioner as members.

(ii) Setting up a Textile Modernisation Fund Scheme: For providing modernisation assistance to the textile mills the Government had created a Textile Modernisation Fund Scheme with a corpus of Rs. 750 crore to provide modernisation assistance to textile mills with lower rate of interest.

(iii) Setting up a Textile Workers Rehabilitation Fund Scheme to provide interim relief to the textile workers affected due to closure of mills.

(iv) In addition, the Government had also taken following steps to tackle the problem of industrial sickness in general:

(a) Setting up Board for Industrial and Financial Reconstruction (BIFR) under the Sick Industrial Companies (Special Provisions) Act, 1985 to tackle the problem of industrial sickness including textiles.

(b) Monitoring the incidence of growing sickness in industries (including textiles) by Financial Insitutitions and Banks.

**Policy Changes**

2.2. The following changes had been effected in the past:

(i) the role of Nodal Agency has considerably diminished with the setting up of the BIFR.

(ii) the IDBI had informed that Textile Modernisation Fund Scheme (TMFS) stands discontinued from August 91 though the Textile Ministry was in favour of continuance of the Scheme during the VIII Five Year Plan by doubling of the fund for Rs. 1500 crore. Textile Mills have to get finances through the normal channels.

(iii) The BIFR established under SICA came into operation in May 1987. Previously BIFR examined the cases of mills in private sector only. But by an amendment in 1992, the scope of BIFR has been extended and mills in Public Sector can also make a reference to BIFR. As a result of this change public sector units have been referred to the BIFR.

(iv) In 1993, the definition of sickness was also amended.

2.3 Asked whether sickness in textile industry was due to Textile Policy of the Government, the Ministry of Textiles in their note submitted as under:

"The reasons for sickness are many and varied and cannot be attributed to the textile policy of the Government. Government is, however, alive to the issue and has been taking steps as appropriate from time to time."

**Textile Policy—Review**

2.4 The Committee desired to know whether any changes have been contemplated in the existing Textile Policy of the Government to deal effectively with the sickness prevailing in the textile industry. The Ministry of Textiles in their reply informed as under:

"No changes are contemplated in the existing textile policy of the Government to deal with sickness separately. The long term perspective planning for textile sector is done at the time of preparation of the Five Year Plan. The targets and strategies laid down therein are monitored on a regular basis. Government keeps a close watch on the developments in the textile sector and as and when there is any necessity for review and change, appropriate measures are taken through policy interventions."

2.5 In reply to SQ No. 152 answered on 5th June, 1998 in Lok Sabha, the Minister of Textiles stated in the House:

"It has been decided to set up an Expert Group under the Chairmanship of Shri S.R. Sathyam (former Secretary, Ministry of Textiles) for the purpose of enabling the formulation of a new textile policy. The composition and the terms of reference are under finalisation."

The said Expert Committee had since been notified on 24.7.98.

**Nodal Agency**

2.6 The Nodal Agency came into existence as a sequel to the 1985 Textile Policy in January, 1986. As enunciated in the policy, the measures needed for the revival of a sick unit have to be based on a detailed and objective study of the causes that led to sickness and identification of the steps necessary to revive the unit. A distinction is to be made between units which are potentially viable and those units which are not potentially viable. Potentially viable units would require rehabilitation packages comprising provision for additional balancing equipments, replacement of existing machinery, change of product mix, better marketing strategy, rationalisation of labour including improvement of work norms, strengthening of management organisation and adjustment of capacity in different stages of manufacturing.

The objective of the Nodal Agency was to determine the viability of sick and weak textile units and to work out the rehabilitation packages in cases of viable units. The Nodal Agency's functions were:

(a) To consider the viability studies carried out in respect of sick textile mills by the all India financial institutions/IDBI and to evolve rehabilitation packages in consultation with the agencies concerned.

(b) To coordinate, monitor and oversee the preparation and implementation of rehabilitation packages in respect of potentially viable textile mills.

(c) To monitor the financial and technical performance of the units which have been assisted through rehabilitation package.

Where the Nodal Agency declares a sick textile unit to be non-viable or as having no expectation of becoming viable in a reasonable period of time, there may be no alternative but to allow the unit to close down provided the interests of the workers are protected.

2.7 Nodal Agency examined 177 sick closed textile units in different States and determined viability as per the following details furnished by the Ministry in October, 1998:—

| | |
|---|---|
| Mills examined | 177 |
| Declared as viable | 51 |
| Decleared as non-viable | 51 |
| Mills whose viability has not been decided by the Nodal Agency | 75 |
| Total | 177 |

Out of 177 sick textile mills examined by the Nodal Agency, 101 mills are working and 76 mills are closed as on 31st May, 1998.

2.8 With the setting up of the BIFR under SICA in 1987, the role of the Nodal Agency has become marginal/diminished.

2.9 Elaborating about the reasons for not convening any meeting of the Nodal Agency in the recent past, the Ministry of Textiles informed the Committee as under:

"In pursuance of statement of Textile Policy of June 1985, Government had set up a Nodal Agency in January 1986 with IDBI as a convenor and representative drawn from other organisations/State Governments as members. The last meeting of Nodal Agency was held on 30.10.1990.

With the coming into existence of BIFR, a quasi-judicial body with almost the same objectives as that of Nodal Agency and with comparatively more powers, it was decided by IDBI that Nodal Agency has no further role to play."

2.10 BIFR is a quasi-judicial body and it is for BIFR to enure completion of the viability studies. The Board entrusts the viability studies, etc. to different Operating Agencies appointed by them for different sick industrial units.

2.11 In this connection the Ministry of Textiles informed that the viability studies had been conducted by some private agencies as well as the Textile Research Associations. Some of these studies were for sectors as a whole, like the National Textile Corporation, and some others were for individual private mills on a case-to-case basis.

Out of 51 mills declared as viable by Nodal Agency, 37 mills were registered with BIFR as on 24.3.98. Rehabilitation package was sanctioned by BIFR in respect of 11 mills and was under implementation in case of 10 mills. 3 mills were declared as no longer sick.

Out of other 51 mills which were declared as non-viable by Nodal Agency, 24 mills were registered with BIFR. Out of these 24, BIFR/AAIFR had sanctioned scheme in respect of 6 mills which were under implementation. 3 mills were declared as no longer sick.

2.12 As regards 75 mills, whose viability studies were not taken up by the Nodal Agency, the Committee enquired as to why viability studies were not taken up by the Nodal Agency. The Ministry of Textiles stated in their written reply as under:

"IDBI has reported that the Nodal Agency being a Committee of few members could not, on its own, undertake the viability study or evolve rehabilitation packages or oversee their implementation or monitor the performance of the units. These activities would continue to be carried out by the concerned institutions/banks involved on an on-going basis. As a coordinating and facilitating body, the agency could only act on references received from the concerned institutions.

Of the 75 cases, 41 were in private sector and 34 in cooperative sector. In terms of SICA, 1985 all the companies in the private sector came under the purview of BIFR.

| Status under BIFR | No. of Mills |
|---|---|
| Scheme sanction under section 18(4) of SICA 1985 | 2 |
| Scheme sanction under section 17(2) of the SICA 1985 | 1 |
| Draft Scheme | 1 |
| Declared no longer sick | 1 |
| Non-maintainable | 3 |
| Winding up recommended under section 20(1) of SICA 1985 | 3 |
| Under equiry | 1 |
| Total | 12 |

Details in respect of balance 29 mills have not been furnished by the Ministry.

Out of the 34 cooperative mills, 3 mills have repaid the loans (including one under one-time settlement). While legal action was initiated in respect of 13 cases for recovery of dues, privatisation was being explored in respect of 3 cases. Details in respect of 15 non-lead cases is not available with IDBI.

About the procedure for consideration of cases of mills whose viability has not been decided by the Nodal Agency, the Ministry informed that all companies except units under the cooperative sector fall under the purview of SICA, 1985. Therefore, the procedure for assessing their viability is akin to that of others."

**Textile Modernisation Fund Scheme (TMFS)**

2.13 In pursuance of the Textile Policy Statement 1985, the Government set up Textile Modernisation Fund Scheme (TMFS) in 1986 for providing modernisation assistance with an initial corpus of Rs. 750 crore for a period of five years. The eligibility, objectives and salient features of the Scheme were as follows:

**Eligibility for Assistance:**

(i) It was available to weak but viable units as well as to healthy units.

(ii) All spinning and composite mills in the cotton textile industry registered as public or private limited companies as also industrial cooperative would be eligible for assistance under the fund Scheme.

**Objectives of the Scheme**

(i) Upgradation of process, technology and product-mix

(ii) Export orientation

(iii) Energy saving

(iv) Anti-pollution measures

(v) Fuller utilisation of capacity

**Salient features of the Scheme**

The TMFS besides providing assistance at concessional rates would also attend some of the special problems of weak but viable units. Under the TMFS two types of loans are provided:

(i) Modernisation; and

(ii) Special loans towards part of the promoters' contribution for weak but viable units.

2.14 The rate of interest on modernisation loans upto Rs. 6 crore was 11.5% per annum and loans above Rs. 6 crore carried interest at normal lending rate and repayable over a period not exceeding normally 10 years.

2.15 It has been stated that before sanctioning assistance under TMFS financial institutions used to take into consideration overall financial position and repaying capacity of the mills. This was evident from the fact that weak but viable units were also given financial assistance from TMFS by grant of special loans on softer terms to meet part of promoters contribution.

2.16 In tune with the objectives, the mills were expected to prepare detailed modernisation programmes and quantify the physical and financial requirements of modernisation, including margin money for additional working capital and also bring out clearly the specific technological improvement in crucial areas of operation with their impact on productivity and profitability. The TMFS was discontinued from August, 1991.

2.17 Under TMFS, Rs. 1367.39 crore has been sanctioned to 357 cases and Rs. 877.74 crore has been disbursed to 307 cases as on 31.3.1993.

2.18 Asked whether all the 307 cases for which an amount of Rs. 877.74 crore had been disbursed as on 31.3.1993 were sanctioned before the discontinuance of TMFS in August, 1991, and if not, the number of cases sanctioned after August, 1991 and the fate of remaining 50 cases sanctioned under TMFS, the Ministry in this context in their written reply stated:

> "IDBI have intimated that after accounting for cancellation and reduction, the net sanction aggregated to Rs. 1288.5 crore. Out of 357 units assisted, 306 units have partly/fully utilised assistance by availing Rs. 871.00 crore. Assistance sanctioned for modernisation of textile industry from August 1991 to March 1995 aggregated to Rs. 421.2 crore covering 147 cotton textile mills."

2.19 Keeping in view the fact that TMFS was discontinued from August, 1991 and with the BIFR becoming fully operative, the Nodal Agency has no further role to play in ameliorating sickness in textile industry, the Committee enquired about the steps taken by the Ministry of Textiles to provide assistance to the textile industry. The Ministry stated in their reply as under:

"It may be mentioned here that the Nodal Agency has been dormant consequent upon the establishment of BIFR. Though the Textile Modernisation Fund Scheme (TMFS) which came into force in August, 1986 was discontinued effective from August, 1991. On discontinuation of this scheme, the Central financial institutions have been providing loans for modernisation of textile mills through the normal marketing channels. IDBI continued rehabilitation efforts as part of the normal operations. However, undrawn sanctions under TMFS continued to be disbursed as per progress of implementation of concerned unit."

2.20 According to the Ministry, the main reason given by IDBI for discontinuing TMFS was resource constraints being faced by the financial institutions. Despite what has been stated by IDBI the Ministry of Textiles had made efforts for revival of the TMFS for making modernisation assistance to textile units with an enhanced funds of Rs. 1500 crore.

**Impact of Modernisation**

2.21 Under TMFS, in 307 cases Rs. 877.74 crore were disbursed to various mills. When enquired about the impact of modernisation on productivity and profitability, the Ministry of Textiles in their reply stated:

"As regard direction of modernisation, it has been mainly towards replacement of old and obsolete looms by modern auto looms for part of the capacity so extinguished in the case of composite units; these units also simultaneously endeavoured to increase surplus yarn available for market sale through suitable modernisation in the spinning departments. In the case of spinning units, modernisation efforts were generally not confined to any specific area but spread out to all the departments. Most of such units had gone in for auto-coners, yarn splicers and TFOS for enhancing export capacity and better quality yarn. The private undertakings have their own management. The role of management cannot be underscored. The overall profitability operations are determined by a number of factors including market situation, input availability etc."

2.22 IDBI had made an assessment of impact of modernisation on textile industry. As per this study, a major portion of expenditure towards plant and machinery had gone for spinning equipments (64%) followed by weaving (20%) and processing (7%). In spinning, the thrust of modernisation was mainly on renovation/replacement of ring frames and in weaving on replacement of conventional plain looms by automatic looms.

IDBI study had also shown that after modernisation both spinning and composite units have shown better technical performance in terms of machine productivity resulting in higher value of output in case of spinning units and better quality output in most of the composite mills. There did not appear to be any significant change in the overall profitability of operations of the units following completion of modernisation scheme although export capability considerably enhanced both for spinning and composite units.

2.23 About the impact of modernisation in respect of private sector mills, the Textile Commissioner during evidence stated:

> "It is in respect of the private sector. But some of these mills again fell sick and that is a different thing. About 225 mills have availed of textile modernisation scheme loan and out of those, 16 mills were temporarily closed on the 31st of October, 1995. Some mills were closed for some days for some reason or the other and then they were revived."

2.24 As a result of measures of revival of sick mills, ten sick mills turned corner termed "no longer sick (December, 1995)".

**Textile Workers Rehabilitation Fund Scheme (TWRFS)**

2.25 Socio-economic problems are likely to arise due to closure of textile mills because of structural changes in the industry. The situation was envisaged as far back as 1985 at the time of formulation of textile policy. In order to protect the interests of the workers who would be displaced by permanent closure, Textile Workers Rehabilitation Fund was set up by the Government of India in 1986. This fund provides Interim Relief to workers affected by structural changes. The idea behind creation of this fund was to assist the workers during the period of transitional adjustment and to enable them to settle in an alternative employment. Further the State Governments have been issued instructions to help workers being displaced due to closure of textile mills by providing them infrastructural facilities and other incentives so as to facilitate them to set up their own self-employment venture.

2.26 Furnishing salient features of the TWRFS, the Ministry in their reply stated as under:

> "Textile Workers' Rehabilitation Fund Scheme, introduced by the Central Government, came into force with effect from 15th September, 1986.
>
> The objective of TWRFS is to give interim relief to the workers (drawing wage equivalent upto Rs. 2500/- per month or less) rendered jobless due to permanent closure of the mills. Relief under the scheme is available only for 3 years on a tapering basis."

2.27 In this connection, during evidence, the Textile Commissioner stated:

> "We only give this relief for the interim period during which he should try to get himself rehabilitated. The relief is to tide over the intervening period. We give him about Rs. 20,000 to 22,000, that is,

75 per cent of the wage equivalant in the first year, 50 per cent of the wage equivalent in the second year and 25 per cent of the wage equivalent in the third year. This is in addition to all other reliefs or compensations available under various Acts applicable to a mill. With this money, he should try to overcome the intervening period. He should try to get his name registered with the employment exchange, if he so likes."

2.28 The above payment is made without any string attached for the purpose of rehabilitating the workers themselves by the end of the 3rd year of closure.

2.29 The Joint Secretary, Ministry of Textiles stated during evidence that "basic aim is that, we give it as interim relief... The objective of this fund is not that it will rehabilitate, it will help in rehabilitation."

**Criteria for eligibility**

2.30 The Committee enquired about the eligibility of a mill as well as the worker to avail the benefit of TWRFS. The Joint Secretary, Ministry of Textiles on the criteria for eligibility stated during evidence:

> "There are certain criteria. There are three conditions for a worker of a mill to be eligible to apply for benefits under the Textile Workers' Rehabilitation Scheme. The first one is that the mill should be closed and that the closed mill should be licensed or registered under the industries (Development and Regulation) Act, 1951 or with the Textile Commissioner as a medium-scale unit on the date of its closure. The second condition is that it should have obtained the requisite permission for closure from the appropriate State Government under Section 25(O) of the Industrial Disputes Act."

2.31 To avail benefit under TWRFS the unit should have been closed down on or after 6th June, 1985.

2.32 By a recent amendment, TWRFS is also now applicable to the cases of partial closure on a case to case basis. Partial closure is restricted to cases wherein the State Government recommends that an entire uneconomic activity is scrapped as a part of rehabilitation package for sick/weak mills (as per the RBI definition) approved by Nodal Agency/BIFR, provided the scrapped capacity is surrendered for cancellation and endorsement is made in the licence/registration certificate to that effect.

2.33 The following conditions are necessary for workers to become eligible for getting relief under TWRFS:—

(i) The scheme is applicable to workers who have been earning wage equivalent upto Rs. 2,500/- per month.

(ii) A workman continuously employed for 5 years in the closed textile units on the date of closure.

(iii) A worker should be on the records of the Regional Provident Fund Commissioner.

2.34 As on 31.3.1995, 57321 workers of 30 closed private mills all over the country are eligible for getting relief under TWRFS.

2.35 The total number of units which have applied for assistance under TWRFS so far (as on 31.03.98) is 34. The total number of mills assisted under TWRFS is 31. A total of Rs. 96.75 crore has been paid since the inception of the scheme upto 31.03.98. The total number of workers already benefited under TWRFS in the country has been 48,054.

2.36 State Government and Regional Provident Fund Commissioner verifies the list of workers with regard to details of wages of workers. On receipt of verified list of workers, Textile Commissioner gives benefit to eligible workers under TWRFS. The verification of list of workers with regard to wages etc. takes time. As and when the list of eligible workers is received by Textile Commissioner, the benefit would be immediately given to workers.

2.37 When enquired as to how rehabilitation of those jobless textile workers, who did not come within the purview of TWRFS was done, the Ministry in their written reply stated:

> "At present Office of the Textile Commissioner, Ministry of Textiles concerns with jobless workers of mills which come under the purview of TWRFS."

2.38 About the problems faced by Government which were coming in the way of rehabilitating textile mill workers rendered jobless due to closure of textile mills, the Ministry of Textiles informed the Committee as under:

> "The main problem faced by Government in the way of rehabilitation of textile workers rendered jobless due to closure of textile mills is to find alternative "job opportunities" for such workers and to make them suitable for such alternative job. It is not easy to train workers who had spent major portion of their working life in textile industry to switch on to some other occupation in the middle of their career."

2.39 Enquired about the training institutions being run by the Government to impart training for alternative jobs to those textile workers rendered jobless, the Ministry in their reply stated:

> "There is no scheme to impart training for alternative jobs for workers rendered jobless due to closure of mills in private sector."

**Board for Industrial and Financial Reconstruction (BIFR)**

2.40 BIFR is a semi-judicial body to give assistance to the process of revival of some sick institutions. BIFR became fully operational w.e.f. 15th May, 1987.

Objectives of BIFR are as under:—

(i) To secure timely detection of sick and potentially sick companies;

(ii) the speedy determination by a board of experts of the preventive, ameliorative, remedial and other measures which need to be taken with respect to such companies; and

(iii) Expeditious enforcement of the measures considered appropriate.

2.41 As regards the procedure of going to BIFR, the Ministry of Textiles stated in a reply as under:

"(i) Under Section 15(1), a sick industrial company is required to make a reference to BIFR within 60 days from the date of the finalisation of duly audited accounts of the company for the financial year in which the company has become sick.

(ii) Under Section 15(2) of SICA Central Government, State Governments, Banks, RBI and Financial Institutions having interest in the company may also make a reference to the Court."

2.42 Section 23 of Sick Industrial Companies (Special Provisions) Act, 1985 was amended w.e.f. 1.2.1994 by adding new Section 23-A. According to the Ministry, the objective is to ensure that in case the company does not report its sickness to BIFR, other involved agencies the Central Government or the Reserve Bank or a State Government or a public financial institution or a State level institution or a scheduled bank may report the facts of such units to BIFR so that necessary steps could be taken to arrest the sickness. It is expected to ensure timely detection of sickness and provide remedial measures so as to arrest growth of sickness in the initial stages itself. However, no case of incipient sickness in textile units have been reported to BIFR by the above mentioned institutions/Banks/State Governments etc. after the amendment to the SICA took effect.

2.43 Under Section 16(1) of SICA the BIFR Board may make such inquiry as it may deem fit for determination of sickness.

2.44 Under Section 17 of SICA, BIFR passes suitable order on the completion of inquiry. If the condition of sickness is satisfied the company is declared sick and BIFR considers whether the company can make its net worth exceed the accumulated losses within a reasonable period of time.

2.45 As per the information obtained from the BIFR there were 333 Textile Mills registered with BIFR as on 24.3.98.

2.46 About the mills which have not yet been referred to the BIFR but are still sick and the number of mills running in the private sector, the Textile Commissioner stated:

"The list of the sick mills is maintained by the RBI. So far we have got the list as on 31.3.94 according to which out of a total of 1175 mills, 384 mills stood declared sick.... Out of this 184 mills stood referred to the BIFR".

2.47 Elaborating about the procedure for referring the case to BIFR, the Ministry of Textiles stated that after a case is referred to BIFR, the Bench gives an opportunity to the informant company, Financial Institutions, State Governments to be heard in person. Thereafter, the Bench considers whether the company fulfils the condition stipulated in the Act for becoming sick. If it does not fulfil the condition, the reference is dismissed as not maintainable. If the condition of sickness is satisfied, the company is declared sick.

2.48 In this connection, the executive Director IDBI during evidence added as under:

> "Whenever a unit turns sick, it is referred to the BIFR. When it comes to the BIFR, it appoints one of the financial institutions as an operating agency."

2.49 Four Central Financial Institutions *viz.* IDBI, ICICI, IFCI, IRBI and eight nationalised banks have been notified as Operating Agencies by BIFR.

2.50 Section 16 of the SICA provides:

> "An Operating Agency appointed by BIFR may make an enquiry and give a report with respect to such matters as may be specified (may also include viability study) within 60 days from the commencement of the enquiry. Section 18 of the SICA also provides that the Operating Agency specified by the BIFR shall prepare packages and other remedial measures as expeditiously as possible and ordinarily within a period of 90 days from the date of such order."

2.51 On the procedure being followed by BIFR, the Executive Director, IDBI during evidence stated as under:—

> "Once an operating agency is operating, the BIFR directs the operating agency to give a viability report on that proposal. That operating agency goes into the case in detail, goes into the financial position, the total picture of the company and prepares a viability report and sends it to the BIFR. The BIFR sends a copy of the report to all the institutions concerned which have to give any concession or any responsibility. The BIFR then convenes a meeting of all the parties concerned. All the parties concerned will put forward their views before the BIFR during the course of hearing whether they concur with the recommendations of the operating agency or they do not concur with the recommendations of the operating agency. Then the BIFR will direct the operating agencies to revise the report in the light of the views expressed by the institutions concerned which have a role to play in bringing back the company to health. They will then submit it to the BIFR for final clearance. After the scheme is finally cleared, again it is circulated by the BIFR to the agencies concerned for their concurrence before they finally approve it".

2.52 In this connection, the Ministry stated that the draft scheme so formulated was circulated to all concerned inviting suggestions/objections within a period of 60 days.

2.53 Comments/suggestions on the rehabilitation scheme prepared by Operating Agency are invited from the representatives of the management, representative of labour, the concerned banker of the mills, the concerned State Government(s), Central Government and any other agency interested in the revival scheme of the concerned sick mills. Brief particulars of draft scheme is also published in two dailies inviting comments from employees, Creditors and share holders. Where the scheme (Under Section (1) of 19) provides funding assistance by way of losses, advance guarantees of reliefs/concessions or sacrifices from Central Government, State Government and Financial Institutions, the Scheme can be sanctioned only with the consent of concerned agencies. A copy of scheme is then sent to the sick company/operating agencies, and concerned Government for implementation. The Scheme so sanctioned is binding on all concerned. If the report of the operating agency reveals that it is not possible to revive the sick company, the bench forms the *prima-facie* view that the Company may be wound up. Show-cause notice for winding up is issued to all concerned. After receiving comments from all concerned, the Bench hears the concerned parties and recommends winding up of the Company under section 20(1) of the SICA to the High Court of the concerned State. Thereafter, the High Court takes necessary action to liquidate the Company.

2.54 However, as per SICA, the mills can appeal to the Appellate Authority of BIFR against the orders passed by the Board if the unit feels that such order are unjustified.

2.55 The BIFR can also on the advice of the Operating Agency can fix up responsibilities of all concerned parties for revival of the company.

2.56 The role of each party and sacrifices expected to be made by them are stated in the revival scheme prepared by the Operating Agency. The role to be played by concerned parties in revival scheme is determined after discussions and deliberations in the meetings. Meetings of the Operating Agency and every party is expected to play its role in the revival scheme.

2.57 As on 24.03.1998, 333 companies in the textile industry were registered with BIFR. Status of the textile mills with BIFR as on 24.03.1998 is as follows:

| Status with the BIFR | Status of the Mills with BIFR as on 24.03.1998 |
|---|---|
| Scheme sanctioned under section 18(4) of SICA, 1985 | 64 |
| Dismissed as Non-Maintainable | 49 |
| Scheme sanctioned under section 17(2) of SICA, 1985 | 03 |
| Draft Scheme | 10 |
| Winding up recommended under section 20(1) of SICA, 1985 | 98 |
| Others | 06 |
| Winding up notice issued | 07 |
| Under Enquiry | 45 |
| Failed and reopened | 08 |
| Remanded by AAIFR/Court | 04 |
| Stay Order by Court/AAIFR | 05 |
| Dropped (N/W Positive) | 02 |
| Scheme sanctioned by AAIFR | 11 |
| Declared no longer sick | 21 |
| TOTAL: | 333 |

2.58 In another reply, the Ministry informed that as on 29.2.1996 in 14 cases, the companies ceased to be sick companies after successful implementation of their revival/rehabilitation package.

2.59 Asked whether sufficient independence/autonomy/powers have been conferred upon the Board to tackle the problem of sickness/closure of textile industry and what were their suggestions to make the role of BIFR more effective and purposeful, the Ministry of Textiles in their reply submitted as follows:

> "Sick Industrial Companies (Special Provisions) Act, 1985 under which BIFR has been set up, contains the provisions and parameters under which BIFR functions. Rehabilitation measures *inter-alia* require financial assistance and concessions from FIs/banks/ Government (Central as well as State), for which their consent is essential under Section 19 of the Act. If financial assistance and concessions are not forthcoming BIFR cannot issue orders/directions in this regard. BIFR has also to necessarily give opportunity to all the participants for making their submissions/proposals, which is essential within a legal framework in which BIFR operates. This process is, therefore, time consuming. Further, decisions are also subject to appeal and writs."

2.60 Regarding providing necessary financial help to the textile units by the Central Government or Financial Institutions or State Governments as recommended by BIFR, the Ministry in their written replies stated that information regarding financial help provided by Central Government or Financial Institutions or Sate Government mill-wise on the recommendation of BIFR, was not maintained centrally.

2.61 When pointed out that the Ministry should have a mechanism to know the outcome of the revival package recommended by BIFR, to this Textile Commissioner reacted as under:

> "So far there is no such agency. Your suggestion is good. We will think over it and would try to follow up the cases."

**Achievement of BIFR**

2.62 Furnishing details on the role and achievements of BIFR, the Ministry of Textiles stated in a note as under:

> "Despite many problems and constraints, BIFR has been able to substantially streamline the procedure, reduce the time lag in hearing, reduce the overall duration of a proceeding, ensure expeditious disposal of a proceeding and strive hard in the direction of rehabilitation/revival of the sick industrial companies which is the principal objective of the SIC(SP) Act, 1985. Apart from hastening the pace of revival/rehabilitation proceedings, the Board has been maintaining close and constant watch on the pace of implementation of the rehabilitation packages sanctioned u/s 18(4) through review hearings.
>
> The Board has been striving hard to reduce the number of pending cases and to ensure a balanced and judicious disposal of the proceedings through a consultative mechanism based on the principle and culture of consensus as well as openness."

2.63 Asked as to how the coordination between BIFR and Financial Institutions was maintained, the Ministry in their reply stated:

> "BIFR has been informing the Operating Agency, Central Government, State Government etc. and concerned company right from the stage of preparation, circulation and publication of the scheme and upto its finalisation. BIFR has also been monitoring the implementation of sanctioned schemes."

**Financial Assistance**

2.64 The Committee wanted to know as to whether the Government had proposal to provide any financial assistance to States for revival of sick or closed mills, the Ministry of Textiles informed that the Government of India do not provide any financial assistance to State Government for revival of sick/closed mills.

2.65 Asked about the reasons for not providing any financial assistance, the Ministry replied as under:

> "It is not obligatory for the Central Government to provide financial assistance to States for revival of sick or closed mills. However, Government of India is making every effort to help the organised mill sectors through its own schemes like Textile Modernisation Fund Scheme created to improve level and quality of production of textile units, Textile Workers Rehabilitation Scheme for displaced workers of

closed mills. It also helps mills of National Textile Corporation through National Renewal Fund. However, it is not possible to provide separate financial assistance to each State for revival of private sick mills."

**Assistance to Private Sector mills through World Bank**

2.66 Government had been exploring the possibility for providing finance for modernisation of private sector mills through World Bank or International Funding Agencies. A proposal for assistance for Rs. 17,250 crore through World Bank/International Funding Agencies for modernisation of private sector mills has been submitted to Ministry of Finance.

Enquired by when it was likely to be finalised, the Joint Secretary during evidence stated as follows:

"It is not possible for me to say about it right now because the proposal has been sent to the Ministry of Finance, who in turn have sent it to the World Bank and the World Bank is still in process of examining it."

2.67 Dwelling upon the salient features of the above proposal, the Ministry of Textiles in their note stated as under:

"The total fund requirement for modernisation of existing private sector mills has been estimated to be Rs. 17,250 crore. The break up is given below:

| | |
|---|---|
| Spinning Sector | Rs. 5,000 crore |
| Weaving Sector | Rs. 7,250 crore |
| Processing Sector | Rs. 5,000 crore |
| Total | Rs. 17,250 crore |

Physical targets:

*Spinning sector*

| | |
|---|---|
| No. of spindles requiring replacement | 5 million |

*Weaving Sector*

| | |
|---|---|
| No. of looms to be replaced | 40,000 |
| No. of Air Jet Looms or other looms of modern technologies required. | 25,000 |

India will have to upgrade the processing capacity to international standards and at the same time install additional capacity to meet the increased processing requirements which have been estimated to be 6225 million sq. mtrs."

2.68 Furnishing the present position on the aforesaid proposal submitted to the Ministry of Finance, the Ministry of Textiles stated in a subsequent note:

"The matter regarding providing finance for modernisation of private mills through World Bank or International Funding Agencies was taken up with the Ministry of Finance in August, 1995. The World Bank has, however, expressed its inability to provide funds at subsidised rates on account of the fact that as per the present lending strategy adopted by the Bank, subsidized priority credit is being extended mainly for environment and pollution control measures. For all other areas, they do not have dedicated line of credit and the on-lending terms are required to be set up at market rates. The Ministry of Textiles is now exploring the possibility through the Ministry of Finance whether a large corpus of funds could be created with IFC to meet the various investment needs of the private mills."

**Technology Upgradation Fund**

2.69 The Ministry of Textiles in their communication dated the 16th December, 1998 while furnishing information on Technology Upgradation Fund submitted as under:

"A special scheme for technology upgradation in the textile industry has been proposed by the Ministry of Textiles. The objective is to enable the Indian textile industry to take urgent steps to bridge technological gaps in order to upgrade the quality of our textiles and to assist the industry to become more competitive in the international and domestic markets.

It has been seen over the years that while the spinning sector has done comparatively better by keeping pace with technological changes, the processing and weaving sectors, in particular, have lagged behind and are in urgent need of technological upgradation. This is exemplified by the lack of modern processing and finishing facilities and of inadequacy in the number of state-of-the-art looms in the country. The Ginning and Pressing sector also needs to upgrade its facilities, as also the garment manufacturing sector.

Similarly, for the Jute Industry a Jute Modernisation Fund Scheme was operated from 1986. This scheme has also since been discontinued. Meanwhile, the jute industry has also been suffering from obsolescence and there is need for fresh investment in the industry for modernisation and technological upgradation.

It is proposed to make available loans with interest incentive to identified sectors of the textile industry. While no separate corpus for loans has been earmarked, it has been estimated that the requirement of funds by the identified sectors of the industry over a five year period could be of the order of Rs. 25,000 crore. Eligible units would be able to avail of such credit from All India Financial Institutions and Commercial Banks. Details of the Technology Upgradation Fund Scheme are being worked out."

"The proposed Technology Upgradation Fund Scheme is to be applicable to identified sectors of textile industry intending to give accent to the post spinning sub-sectors (weaving, processing and garment).

Spinning units would be eligible for the benefits if they are part of the composite mills. The major reason for this is that the benefit under the erstwhile Technology Modernisation Fund Scheme of 7th Five Year Plan period were largely availed of by the spinning sector and also that this sector is considered capable of standing to competition—both national and international."

OBSERVATIONS/RECOMMENDATIONS

**2.70 The Committee note that in pursuance of the Textile Policy of 1985, the Government have taken various measures to tackle the problem of sickness in the textile industry i.e. through setting up of a Nodal Agency, a Textile Modernisation Fund Scheme, Textile Workers Rehabilitation Fund Scheme, establishing a Board for Industrial and Financial Reconstruction and through monitoring the incidence of growing sickness in industries (including textile) by Financial Institutions and Banks.**

**2.71 The Committee are informed that a Nodal Agency came into existence in January, 1986 as a sequel to the 1985 Textile Policy with IDBI as convenor and representatives drawn from State Governments, RBI, Financial Institutions and the Textile Commissioner as members, to determine the viability of sick and weak textile units and to work out the rehabilitation packages in the cases of viable units. The Nodal Agency examined 177 sick/closed textile units in different States.**

**2.72 The Committee further note that with the coming into existence of BIFR, a quasi-judicial body with almost the same objectives as that of Nodal Agency and with comparatively more powers, it was decided by IDBI that the Nodal Agency had no further role to play.**

**2.73 Out of 177 sick/closed mills, 101 mills are working and 76 mills are reported to be closed. Further out of 75 mills (41 in the Private Sector and 34 in Cooperative sector) whose viability studies were not taken up by the Nodal Agency, all the 41 mills in the Private Sector came within the purview of BIFR in terms of the Sick Industrial Companies (Special Provisions) Act, 1985. Out of these 41 mills, 12 mills were registered with BIFR as on 24.3.98, BIFR sanctioned rehabilitation scheme in case of four mills and winding up orders were issued in respect of three mills. One mill was declared as no longer sick. However, the details in respect of the remaining 29 mills have not been furnished by the Ministry. Out of 34 cooperative mills, 3 mills have repaid the loan. While legal action was initiated in respect of 13 cases for recovery of dues, privatisation was being explored in respect of 3 cases. However, the details in respect of 15 non-lead cases is not available with IDBI.**

**2.74 The Committee find it surprising that details in respect of 29 Private Sector mills have not been furnished by the Ministry of Textiles and details in respect of 15 mills in Cooperative Sector are not available with the IDBI. The Ministry of Textiles who are entrusted with overall responsibility for policy formulation, regulation and development of the textile industry in the**

country, have not bothered to ascertain and furnish details of these mills to the Committee. This is a clear evidence of unsatisfactory functioning of the Ministry. The Committee feel that the Ministry of Textiles should have made earnest efforts to ascertain the details of these sick mills as also to get their viability determined.

2.75 The Committee note that in pursuance of the Textile Policy Statement, 1985, a Textile Modernisation Fund Scheme (TMFS) was set up by the Government in 1986 for providing modernisation assistance with an initial corpus of Rs. 750 crore for a period of five years.

2.76 Under TMFS loans were provided for modernisation and also to address special problems of weak but viable textile units. As on 31.3.1993 Rs. 1367.39 crore have been sanctioned for 357 cases and Rs. 877.74 crore have been disbursed to 307 cases.

Out of these 357 units assisted, 306 units have partly/fully utilised the assistance by availing Rs. 871 crore. Assistance sanctioned for modernisation from August, 1991 to March, 1995 aggregated to Rs. 421.2 crore covering 147 cotton textile mills.

2.77 The Committee have been informed that the Textile Modernisation Fund Scheme was discontinued from August, 1991 even though the Ministry of Textiles was in favour of continuance of the Scheme during the Eighth Plan by doubling of the fund to Rs. 1500 crore. Now the textile mills get finances through the normal channels only.

2.78 About the impact of modernisation under TMFS the Committee are informed that direction of modernisation has been mainly towards replacement of old and obsolete looms by modern auto looms. These units have also simultaneously endeavoured to increase surplus yarn available for market sale through suitable modernisation in the Spinning Departments. But some of these mills again fell sick. About 225 mills have availed of TMF Scheme loans, out of those 16 mills were temporarily closed as on 31.10.95.

2.79 The Committee are further informed that IDBI had made an assessment of impact of modernisation on textile industry. A major portion of modernisation assistance had been spent on spinning department followed by weaving department. The IDBI study showed that after modernisation both spinning and composite units have shown better technical performance in terms of machine productivity resulting in higher value of output in case of spinning units and better quality output in most of the composite mills. But, there did not appear to be any significant change in the overall profitability of operations of the units following completion of modernisation schemes although export capability have enhanced considerably both for spinning and composite units.

2.80 Under TMFS, loan assistance at concessional rates was provided for modernisation as also for weak but viable textile units both in the private sector and in the cooperative sector in the country. It is really unfortunate that the Ministry of Textiles have no detailed information about such sick

**but viable textile units in these two sectors. The Committee, therefore, desire the Ministry of Textiles to undertake a study to evaluate the impact of modernisation assistance under TMFS and the need for reintroduction of TMFS to regenerate the ailing but viable textile industry in the country.**

**2.81 The Committee note that the Textile Workers Rehabilitation Fund Scheme (TWRFS) introduced by the Central Government to protect the interests of the workers rendered jobless due to permanent closure of mills came into force w.e.f. 15th September, 1986. The rationale behind the creation of this fund is to assist the workers during the period of transitional adjustment and to enable them to settle in an alternative employment. Now TWRFS has also been made applicable to the cases of partial closure on a case to case basis. Since its inception the benefits under the scheme have been extended to mills in the Private Sector only.**

**2.82 The Committee also note that the scheme is applicable to workers earning wages equivalent upto Rs. 2,500/ per month for the interim period during which the worker should try to get himself rehabilitated. Relief under the scheme is available only for 3 years on a tapering basis, 75% of the wage equivalent in the first year, 50% in the second year and 25% in the third year. The relief is in addition to all other reliefs or compensations available to workers under various Acts applicable to a closed mill.**

**2.83 As on 31.3.1998, a sum of Rs. 96.75 crore has been paid to 48054 workers under the Scheme. The remaining workers will be covered after receiving complete applications duly certified by the State Governments. The Committee desire that in order to obviate hardship to the workers due to delay in providing relief, the Ministry of Textiles/Office of the Textile Commissioner, should impress upon the State Government/authorities concerned for furnishing expeditiously certified applications of the workers eligible under the scheme and that on receipt of certified applications payment to such displaced workers should be made without any delay. The Committee would like to be apprised of the specific measures taken by the Government in this regard.**

**2.84 The main problem faced by the Government in the way of rehabilitation of textile workers rendered jobless due to closure is to find alternative 'job opportunities' for them and to make them suitable for such alternative jobs. The Committee regret to note that there is no scheme to impart training for alternative jobs for workers rendered jobless.**

**The Committee feel that when a mill has been closed and labourers are thrown out, then there should be some mechanism or programme to rehabilitate them. Keeping in view the fact that rehabilitation is not dealt with by the Ministry of Textiles and owner of mill is not taking care of them because the mill being sick, the Government should come forward and evolve an alternate package for their rehabilitation.**

**The Committee, therefore, desire that the Ministry of Textiles may impress upon the State Governments to chalk out suitable rehabilitation**

**schemes/training programmes for rehabilitation of workers rendered jobless.**

**2.85 The Committee note that under the provisions of the Sick Industrial Companies (Special Provisions) Act (SICA) 1985, the Government has set up BIFR, a semi-judicial body to give assistance to the process of revival of some sick industrial companies (including textile mills) and to prepare and sanction, as appropriate, schemes for revival of such mills. The objective of BIFR is to secure timely detection of sick and potentially sick companies. An amendment was made w.e.f. 1.2.94 in Section 23 to ensure that in case the company did not report its sickness to BIFR other involved agencies might report the facts of such units to BIFR so that necessary steps could be taken to arrest the sickness in the initial stage itself.**

**2.86 As on 24.3.1998, 333 textile mills were registered with BIFR since its inception.**

**Out of these mills, schemes were sanctioned in 64 cases, 49 cases were dismissed as non-maintainable. The Company's scheme was approved in 11 cases. 98 cases were recommended for winding up and draft scheme has been approved in 10 cases. 45 cases are under enquiry whereas 21 mills are declared no longer sick.**

**The Committee are concerned to note that most of the cases, i.e. 98 cases have been recommended for winding up. The Committee are, however, informed that OA/BIFR try to explore all possibilities for revival of the companies.**

**2.87 The Committee are surprised to note that the Ministry of Textiles do not have information whether the necessary help from Central or State Governments to those textile units as recommended by BIFR was forthcoming or not and such information regarding financial help provided by Central Government or Financial Institutions or State Governments mill-wise on the recommendation of BIFR is not maintained centrally.**

**The Committee expect the Ministry of Textiles to maintain such data in respect of the Textile Sector. Since it takes years to get a BIFR Report and that also winding up comes in a number of cases, the Committee desire that efforts should be made to expedite the cases referred to BIFR.**

**2.88 The Committee regret to note that in cases of textile mills where the BIFR has recommended for revival, no monitoring is done, although their number is limited.**

**The Committee recommend that mills where BIFR has recommended for revival, a mechanism needs to be set up to monitor the revival after the receipt of revival package by textile mills.**

**2.89 The Committee are informed that it is neither obligatory nor possible for the Central Government to provide financial assistance to States for revival of sick or closed mills. However, they are apprised that Government of India is making every effort in organised mill sector through TMFS**

(since closed) to improve the level and quality of production of textile units and TWRFS for displaced workers of closed mills. It is not possible to provide separate financial assistance to each State for revival of private sick mills.

2.90 The Committee are apprised that the matter regarding providing finance for modernisation of private mills through World Bank was taken up with the Ministry of Finance in August, 1995. However, the World Bank expressed its inability to provide funds at subsidised rates. The Committee note that the Ministry of Textiles is now exploring the possibility through the Ministry of Finance whether a large corpus of funds could be created with IFC to meet the various investment needs of the private mills.

The Committee desire that investment avenues of the private sector mills should be explored and the matter should be vigorously pursued with the Ministry of Finance on creation of funds with IFC. The latest position in this regard may also be apprised to the Committee.

2.91 The Textile industry plays a pivotal role in the economy of the country. Being the largest industry in the country, it accounts for about one fifth of the total industrial production, contributes to nearly one-third to total exports and provides employment to millions of people all over the length and breadth of the country. It has a potential to be a global textiles giant but unfortunately its share is declining compared to increasing share of neighbouring countries in the world textile trade. The Committee are deeply concerned at the present status of sickness in the organised textile industry. The Committee desire that Government should initiate concrete measures necessary to tackle the problem of sickness in the textile industry, to improve the techno-economic viability of the industry, to prevent sickness and to make it competitive in the international market.

2.92 The Committee note that an Expert Group under the Chairmanship of Shri S.R. Sathyam (former Secretary, Ministry of Textiles) has been set up in July, 1998 for the formulation of a new textile policy which will submit its recommendations in six months. The Committee while welcoming the decision to set up the aforesaid Group desire that expeditious and effective follow up action should be taken on its recommendations to tackle the problems facing the textile industry.

2.93 The Committee note that Ministry of Textiles has proposed a special scheme for technological upgradation for the textile industry in order to upgrade the quality of textile and to assist the industry to become more competitive in the international and domestic markets. According to the Ministry, the requirement of funds by identified sectors of the industry over a period of five years has been estimated to the order of Rs. 25,000 crore. The Committee expect the Ministry to expeditiously finalise the details of the Technological Upgradation Fund Scheme.

**2.94 To rejuvenate the textile industry, the Committee also desire as follows:—**

**(i) availability of bank credit at lower interest rate to enable industry to finance its requirement of cotton, being raw material and a seasonal commodity specially during the peak season should be introduced;**

**(ii) availability of quality cotton at fair prices should be ensured. Care should be taken in formulation of policy for export of cotton and sufficient availability for domestic industry;**

**(iii) banks and other financial institutions may consider moratorium against payment of loans for two to three years to deserving textile mills; and**

**(iv) Government of India may consider reintroducing its 1989-90 scheme for granting interest free excise loan repayable in seven years to sick units.**

# CHAPTER III

## NATIONAL TEXTILE CORPORATION

3.1 National Textile Corporation Limited (NTC) was incorporated in April, 1968. Government had taken over sick textile mills from time to time under various Acts and placed these mills under NTC for management. It was also proposed to rehabilitate and modernise these mills after takeover and expand them, wherever necessary, with a view to making them economically viable.

The NTC has 122 mills over the country, managed by 9 subsidiary corporations of the NTC located at Delhi, Kanpur, Indore, Bombay (2 subsidiaries), Calcutta, Ahmedabad, Bangalore and Coimbatore. The following is the break-up of 122 mills in terms of activities:

| | |
|---|---|
| Spinning mills | 41 |
| Composite mills with spinning and weaving | 49 |
| Composite mills with spinning, weaving and processing | 25 |
| Weaving | 2 |
| Processing | 2 |
| Composite having spinning and processing | 1 |
| | 120 |

(2 mills, one knitting and one spinning, not started after nationalisation). One mill was closed in 1996 under the order of the Supreme Court.

3.2 The installed capacity of the mills under the NTC as on 31.3.1998 was 31.83 lakh spindles and 29621 looms. The commissioned capacity was 27.12 lakhs spindles and 17658 looms.

3.3 During the period 1997-98, NTC group has reported a provisional net loss of Rs. 685.56 crore as compared to Rs. 621.72 crore during 1996-97.

3.4 NTC mills have reported a production of 37.82 million kgs. of market yarn as compared to 35.58 million kgs. during the period 1996-97. The production of cloth suffered a considerable drop of 25% during the period 1997-98. It has gone down from 72.68 million mtrs. in 1996-97 to 54.71 million mtrs. in 1997-98.

3.5 The overall provisional accumulated net loss of NTC group as a whole as on 31.3.98 is Rs. 5269 crore as against the overall accumulated net loss of Rs. 4583 crore as on 31.3.97. Barring NTC (TN&P) Ltd., all the other 8 out of the 9 subsidiary corporations have been referred to BIFR which has declared them as sick industrial companies under the provisions of the Sick Industrial Companies (Special Provisions) Act 1985 and appointed operating agencies to draw up rehabilitation plans. Under these 8 subsidiaries there are 91 mills.

3.6 As at the end of February 1998 there were 97,609 employees on roll. As per the Turn Around Strategy 1995, 62,086 workers and 7385 officers and staff totalling 69,471 employees were identified as surplus. Since September 1992, when the Voluntary Retirement Scheme (VRS) was introduced, 52,683 employees have opted for VRS benefits upto February 1998. The balance surplus employees yet to take VRS is 16,788.

3.7 The NTC mills were sick when they were taken over. The Government have invested Rs. 511 crore on NTC upto 31.3.1995. However, considering the size of the NTC and the magnitude of obsolescence, far greater funds are required, especially for modernisation.

The Government approved a revised Turn Around Strategy for NTC based on the revival plans prepared by 4 Textile Research Associations. Since 8 out of the 9 subsidiary corporations of NTC have been referred to BIFR, the implementation of the Turn Around Strategy will be taken up after the same has been accepted and approved by the BIFR. It is expected that this revised Turn Around Strategy will be implemented within a period of 2 years from the date of approval by the BIFR.

**Causes of sickness**

3.8 Even at the time of nationalisation most of the NTC mills were sick or were lying closed. Lack of inadequate modernisation, high man-machine ratio, surplus manpower, obsolete machinery, high cost of inputs, lack of work culture etc. have all contributed to sickness in these mills.

3.9 The basic reasons for sickness in NTC mills have been as follows:

— Obsolete machinery.

— Low productivity.

— Surplus labour force.

— High raw-material costs.

— Competition from powerloom sector.

— Lack of desirable work culture.

— Production of low value added products.

— Shortage of working capital.

3.10 The reasons for sickness/closure in textile industry are stated to be largely similar in all the States. However, in the NTC and the BIC mills sickness is more pronounced particularly in the States of West Bengal, Bihar, U.P. and Gujarat.

**Modernisation Investment**

3.11 Investment made by Government Plan-wise on Modernisation of NTC mills is given below:—

(Amounts: Rs. in Crore)

| Plan | Sanctioned | Implemented |
|---|---|---|
| Upto 5th Plan | 184 | 100.52 |
| Upto 6th Plan | 375.11 | 352.26 |
| 7th Plan | 170.23 | 118.93 |
| 8th Plan (till 31.3.95) | 40.07 | 34.63 |
| Cumulative (till 31.3.95) | 584.63 | 505.82 |

3.12 The Committee pointd out that during Seventh Plan period modernisation schemes worth Rs. 170.23 crore had been sanctioned and implementation thereagainst had been to the extent of Rs. 118.93 crore. Dwelling upon the reasons for not utilising fully the amount sanctioned for modernisation, the Ministry stated in a note:

"The amount implemented on account of modernisation is less than the sanctioned amount. The gap is mainly due to non-release of funds by the financial institutions. As a result some schemes had to be dropped.

It is also pertinent to mention here that during the 7th Plan period, though some schemes were taken up on selective basis, but could not be fully implemented due to reluctance on the part of the financial institutions to fund the same. Many of the schemes had to be dropped due to non-release of funds by the financial institutions, even though, the schemes were sanctioned by them. Since 8 out of the 9 subsidiary corporations were before BIFR even the good subsidiary corporations like NTC (TN&P) and some other good mills were deprived of funds by the financial institutions. This was, due to the reference of 8 subsidiaries to BIFR and the review of NTC as a whole by the financial institutions."

3.13 Giving position during 8th Plan period, the Ministry stated as under:

"In so far as 8th Plan is concerned, only 3 schemes at an investment of Rs. 40.07 crore are under implementation. Till 31.3.95 Rs. 33.77 crore has been invested under these schemes. The major portion of the schemes has already been implemented and part is remaining due to resource crunch."

**Hike in interest rate**

3.14 The Committee enquired about the reasons for sudden hike in the interest rate from 14% (the rate charged since 1974 *viz.* right from the incorporation of the subsidiaries) to 18% w.e.f. 1992-93 when the position of the NTC mills was not sound. The Joint Secretary, Ministry of Textiles during evidence stated:

"It is not within our ambit to decide the rate of interest. It is within the overall policy of the Government of India, primarily the Ministry of Finance. On this account, I would think that the Ministry of Finance would be in a better position to give a clarification as to why they have charged higher rate of interest. It may be applicable to other sick units."

3.15 The Committee wanted to know whether the matter of sudden hike in the rate of interest was taken up with the Ministry of Finance. The Ministry of Textiles in their reply submitted as under:

"The interest rates for public sector undertakings including sick companies is prescribed by the Ministry of Finance. The question on rates of interest is only of academic interest since NTC was given interest subsidy every year upto 1991-92. The interest subisdy was dispensed with from that year as it was expected that there would be interest holiday/waiver or write off of interest. As per the Turn Around Plan approved by the Government, NTC was given interest holiday on the outstanding Government loan and interest thereon as on 1.4.1994. However, in respect of the non-plan loans given to NTC towards payment of wages/salaries and bonus, the amount given carries interest at the rates prescribed by Ministry of Finance. This Ministry has taken up with Ministry of Finance for treating the non-plan loan given during 1994-95 and 1995-96 as also in the current year as interest free loans but Ministry of Finance has not agreed to the same and have insisted that these loans should be treated as interest bearing."

**Viability Study**

3.16 The Ministry in a note informed as follows:—

"The Textile Research Associations have studied the cases of NTC Mills with a view to drawing up rehabilitation plans. They have concluded that the NTC mills can be made viable through modernisation/restructuring."

**Rehabilitation/Modernisation of mills under NTC**

3.17 According to the Ministry of Textiles, the Textile Research Associations have prepared plans for the modernisation/revival of mills under the NTC. The modernisation plans prepared by the TRAs were also considered and recommended by the Special Tripartite Committee on NTC matters constituted by the Ministry of Labour. As per the recommendations of the Special Tripartite Committee, as per the revival plans prepared by the Textile Research Associations recently the Government has approved a Turn Around Strategy for NTC. Under the Revised Turn Around Strategy, modernisation plan of mills were entrusted to the four Textile Research Associations in June, 1993. The reports were submitted by TRAs by 30th September, 1993. After protracted discussions held by the Sub-Committee, as well as the Special Tripartite Committee of the Government, the Special Tripartite Committee accepted the recommendations of the sub-committee on 9th April, 1994. Thereafter, there were detailed discussions in the Government and subsequently, the Government approved the Revised Turn Around Plan of NTC on 9th May, 1995.

3.18 Government approved on 9.5.95 a revised Turn Around Plan for the NTC mills involving restructuring of 36 unviable mills into 18 viable mills and modernisation of 79 mills at an estimated cost of Rs. 2005.72 crore. The funds for the revised Turn Around Plan were expected to be generated by sale of surplus lands and assets of NTC mills.

The implementation of this revised strategy is expected to be completed in about 2 years from the date of approval/decision by the BIFR.

As per the expectation of the Ministry NTC will become profitable at the end of two years after implementation of the modernisation plan.

3.19 Giving salient features of the Modernisation Plan the Ministry informed as under:

— Modernisation of 79 mills at a cost of Rs. 2005.72 crore. The funding of this modernisation programme would be from the funds available through sale of surplus land.

— Restructuring of 36 unviable mills into 18 resultant viable mills by way of merger.

— Govenment shall keep in abeyance recovery of Government loans and interest thereon amounting to Rs. 2383 crore as on 31.3.94 and further provide interest holiday from 1.4.94 onwards.

— Provision of Rs. 330 crore from NRF for enabling 32,938 employees as on 31.10.94 to avail VRS.

— Creation of Rehabilitation Fund of Rs. 50 crore, out of NRF for retraining and redeployment of workers who avail of VRS.

— Provision of funds for payment of wages/salaries till funds begin to flow from the sale of surplus land and assets as envisaged in the plan.

— Acceptance in principle, that NTC (HC) be permitted to dispose of surplus land, and other assets of subsidiary/mills and retain the revenue accruals thereof.

— Effective exemption from the incidence of capital gains on sale of land through appropriate means.

3.20 Furnishing position in respect of subsidiaries of NTC under consideration of BIFR awaiting its final verdict, the Ministry stated in their note of July, 1996 as under:—

"In respect of the four subsidiary corporations *viz.* NTC (SM) Ltd., NTC(MN) Ltd., NTC (DP&R) Ltd. and NTC (APKK&M) Ltd., the BIFR has published the draft rehabilitation schemes and sought certain reliefs/concessions from the Central Government/State Governments/NTC(HC)/ Financial Institutions/Banks/Labour Unions etc.

In respect of 4 subsidiary corporations namely, NTC(MP) Ltd., NTC(UP) Ltd., NTC (WBAB&O) Ltd., and NTC (Gujarat) Ltd. BIFR has issued show casue notices for winding up of these 4 subsidiary corporations as the net worth of these 4 companies do not become positive unless the Government loan and interest thereon are written off/ waived."

3.21 Dwelling upon the reservations of BIFR in this regard the Ministry stated in a note:

"The main reasons for not approving the modernisation plan for NTC (WBAB&O), NTC(UP), NTC(MP) and NTC(Gujarat) are that their net worth will not become positive in ten years of implementation of the plan unless the Government loans and interest thereon are waived/written off. Government are considering write off/waiver of the loan/interest at the highest level with a view to meeting the objection of BIFR."

3.22 In regard to reports by Operating Agencies to BIFR the Ministry informed in July, 1996 as under:—

"As on date the Operating Agencies have submitted their reports to the BIFR in respect of all the 8 subsidiary corporations referred to BIFR."

3.23 Giving details of the reference of some of the sick units to BIFR, the Ministry informed the Committee:

"No final orders have been passed by the BIFR in the cases relating to NTC. In respect of BIC and its two subsidiaries, the BIFR has recommended for winding up of the companies. The appeal is pending before the Appellate Authority for Industrial and Financial Reconstruction (AAIFR)."

3.24 Explaining why it was not possible to indicate the likely time to be taken by BIFR for finalising the proceedings inspite of time frame being specified in the SICA, the Ministry of Textiles replied:

> "The 8 subsidiaries of NTC were declared sick by BIFR during 1993 and 1994. Government had been seeking extension of time from the BIFR for presentation of rehabilitation proposals in the form of revised Turn Around Plan. After approval of the revised Turn Around Plan for modernisation of NTC on 9.5.95, the modernisation plan/rehabilitation package in respect of all the 8 subsidiaries was placed before the BIFR. The BIFR has been considering the rehabilitation package after getting report of the Operating Agencies. The BIFR is a quasi-judicial body and it cannot be said as to when the BIFR will give final approval."

**Waiving of unscheduled loans**

3.25 The Committee wanted to know whether the Central Government was going to waive the unscheduled loan and interest amounting to Rs. 500 crore failing which BIFR might be compelled to take a decision to liquidate them. To this Joint Secretary, Ministry of Textiles replied during evidence:

> "............ The question of waiver of loan is still under the consideration of the Government. Today, I am not in position to say 'yes' or 'no' in that regard."

3.26 On being asked as to why the Ministry of Textiles was not in a position to say anything, the Joint Secretary of the Ministry of Textiles further stated:

> "As far as BIFR is concerned, we have not received any formal intimation from them that they are going to issue like that nor they have written to us for any kind of concession. Keeping in view the operating agency has emphasised in the scheme that the waiver of loan would be necessary to make the entire net worth positive, the matter is now under the consideration of the Government. BIFR has been told accordingly ................ We have already informed the BIFR before even getting any kind of a verdict from them that the matter regarding the waiver of unscheduled loan and interest or the outstanding dues to the Government of India on account of these four subsidiaries. It is under the consideration of the Central Government. That letter has gone to the BIFR last week."

3.27 The Committee drew the attention towards the statement of the Minister in Lok Sabha in response to a starred question that the revised modernisation plan for rehabilitation of NTC of West Bengal, Assam and Bihar have been approved by the Government and has been placed before the BIFR for approval. Reacting of this, the Joint Secretary of the Ministry of Textiles replied as under:

"Regarding BIFR status which the hon. Member has asked as far as NTC, West Bengal is concerned, we are still awaiting the final verdict of the BIFR and the question of waiver of loan is under consideration of the Government. We have already written a letter to them last week bringing it to the notice of the Chairman. I think they will be taking a decision today or tomorrow. The letter is addressed to the Chairman of the BIFR."

3.28 The Committee enquired whether the Ministry was aware of the suggestions made by OA(IDBI) to BIFR in regard to the question of waiver of loans and keeping recovery in abeyance in respect of NTC (WB&ABO). The Joint Secretary of the Ministry of Textiles stated during evidence:

"On this issue, till 30th November, 1995, the Government was not aware of this scheme of operating agency. That meeting took place on 20th of December. We had not got a copy of it at that time. Of course, later we received a copy of it from the IDBI."

3.29 When enquired as to whether IDBI(OA) could directly suggest the waiver of loans without consulting the Ministry of Textiles, the Secretary (Banking) responded by saying:

"When an institution is appointed as a operating agency, BIFR, as a judicial body is appointing the operating agency and it is required to give technical opinion. In that capacity as operating agency, IDBI is not operating as the agent of the Ministry of Finance. Therefore, we do not interfere with the way in which IDBI assists the BIFR in coming to its conclusions."

3.30 The Secretary, Banking Division in this context stated:

"BIFR is a semi-judicial body to give assistance to the process of revival of some sick institutions. They do not consult us on what type of advice they are giving. The question of our concurrence before submitting to BIFR does not arise. They are appointed as operating agency by the BIFR. Where the subsequent decision is required, it has to go on a reference to the BIFR. The IDBI is appointed as an operating agent by the BIFR. The question of our approval does not arise. Even thereafter, when an operating agency gives a report, it gives the viability of the concerns. After the BIFR applies its mind, it is referred to the various agencies. If the agency is Department of Expenditure, it goes to the Department of Expenditure."

3.31 In response to a query, the Secretary, Banking replied:

"Operating agency is giving its technical opinion to BIFR. When an operating agency is operating, it is purely operating as an operating agency of the BIFR. It gives advice and assistance to the BIFR. It does not have any financial power to exercise on behalf of the Government."

3.32 Attention of the Ministry was drawn towards the most important part of the Report *viz.* the suggestion that waiver of an amount to the tune of Rs. 500 crore by the Government would be necessary. To this the Joint Secretary of the Ministry of Textiles stated:

"The view taken by the Ministry before the BIFR was that all the concessions that were agreed to by the Government would put the mills back into good shape; that Government would keep the loan and interest in abeyance and give an interest holiday. It was further expressed that the operating results would improve and they will start gaining cash profit. That is the stand we took before the BIFR. But we have not given any details regarding recall of loan and interest. There is no time-limit to that. The plea that was taken by the Government of India before the BIFR was that since we have agreed to keep it in abeyance without any time-limit, since we have given interest holiday to them, they are going to earn profit. We have taken into account that operating results as reflected in the report. So, taking this into account, the BIFR cleared the proposal as it is. This is the stand taken by the Government of India before the BIFR............ But the BIFR did not agree to it. We have not received the final verdict of the BIFR. It is understood that they are waiting. We took it up with the Ministry of Finance. We have to revert back to them saying that the matter is under consideration. The Finance Ministry was not represented before the BIFR. It is the administrative Ministry which was represented."

3.33 In a post evidence note furnished in July, 1996, the Ministry of Textiles stated as follows:—

"Government are considering at the highest level waiver/write off of the loans/interest. A final decision is awaited. Every effort is being made to take a final decision at the earliest."

3.34 The Committee were informed that a rehabilitation plan amounting to Rs. 2005 crore have been drawn up by the NTC and is awaiting approval. When asked to furnish the reasons for the delay in approving Rs. 2005 crore rehabilitation plan, the Ministry in their reply stated as under:

"The Government approved the revival package of NTC mills in May 1995 at an outlay of Rs. 2005 crore. Since 8 out of the nine subsidiary corporations of the NTC have been referred to the BIFR, the implementation of the approved scheme can be done only after approval by BIFR."

3.35 Asked whether any time schedule has been laid down for implementation of the modernisation plan and how it would be carried out, the Ministry stated:

> "It has been proposed to implement the modernisation plan within a period of two years from the time of availability of funds through sale of surplus lands/assets. Once the modernisation plan is cleared by BIFR, various steps as required would be taken towards implementation of the same. A high powered Committee set up by the Government of India would be involved for purchase of items after following the laid down procedures like floating of tenders, evaluations, negotiations and approval etc."

3.36 Regarding details and utilisation of surplus land assets of closed textile mills for revival/modernisation, the Ministry stated as follows:

> "The modernisation of 79 mills under NTC at an estimated cost of Rs. 2005.72 crore is proposed to be financed out of sale proceeds of the surplus lands of NTC. It has been estimated that NTC has a surplus land of about 1515 acres valued at Rs. 2349 crore. The modalities for disposal of surplus lands and assets of the textile mills under NTC is under examination."

3.37 In this context, the Joint Secretary, Ministry of Textiles stated during evidence:

> "As far as sale of land is concerned, land has been identified and has been valued by the CBDT and we have everything in order today. It is the question of approval of BIFR after which there will not be any problem on the sale of land."

3.38 Furnishing the views of the respective State Governments on funds from the sale of surplus land in various States, the Ministry of Textiles stated:

> "While no specific proposals were made to the State Governments, the State Governments were requested to cooperate in the matter of disposal of NTC's land for raising funds for modernisation. The Governments of Bihar and UP have offered to extend cooperation. The Government of MP has observed that they cannot issue general instructions for disposal of surplus land of NTC. The Government of West Bengal suggested transfer of NTC's surplus land to the State Government at a negotiated response. No response has been received from the remaining State Governments. However, since the 8 subsidiaries of NTC are before the BIFR and the State Governments are represented before the BIFR, it is expected that their specific reaction to the proposals for sale of surplus lands of NTC will be known at the time of hearing and finalisation of package. Once BIFR gives approval to the rehabilitation/modernisation package, necessary references to the States Governments will be made."

3.39 The Committee asked whether the funds raised through sale of surplus land assets for modernisation plan would result in revival, modernisation and improvement in performance of NTC mills, the Ministry stated in their reply:

> "The viability plan prepared in respect of each of the mills indicate consequent upon modernisation, product upgradation, higher productivity, NTC as a whole will be in a position to show a net profit of the order of Rs. 114.47 crore per annum. These profits are likely to accrue after the implementation (2 years period estimated) of the revival plan. However, BIFR is going through the modernisation plan and will approve the same only if it is viable."

**Budgetary Support**

3.40 The budgetary support from the Central Government is given to NTC/BIC is the shape of working capital loans towards reimbursement of cash losses and also for payment of salary wages to workers. The total budgetary support extended by the CentralGovernment to NTC from 1992-93 to 1997-98 towards payment of salaries and wages is approximately Rs. 1400 crore. The details of budgetary support for working capital received by the NTC during the years 1985-86 to 1998-99 are as under:

BUDGETARY SUPPORT FROM THE GOVERNMENT TO NATIONAL TEXTILE CORPORATION

(Rs. in Crores)

| Year | Working capital loans received from Govt. of India |
|---|---|
| 1985-86 | 123.67 |
| 1986-87 | 135.14 |
| 1987-88 | 170.23 |
| 1988-89 | 216.84 |
| 1989-90 | 287.15 |
| 1990-91 | 97.00 |
| 1991-92 | 73.00 |
| 1992-93 | 154.80 |
| 1993-94 | 132.00 |
| 1994-95 | 123.00* |
| 1995-96 | 235.00 |
| 1996-97 | 333.00 |
| 1997-98 | 392.00 |
| 1998-99 (upto October, 1998) | 201.00 |

3.41 The Committee enquired about the reasons for the fluctuating trends of the budgetary support from the Government and the policy of

*. In Addition an amount of Rs. 30 crore of modernisation funds were permitted by Government to be utilised for wages and salaries.

the Government in this regard, the Ministry stated as under:

> "Till funds accrue for modernisation of NTC, Government is releasing funds for wages/salary and bonus only for NTC."

3.42 The Committee wanted to know as to how NTC would fulfil their requirement of working capital pending beginning of the modernisation programme, which was likely to be delayed. The Ministry submitted as under:

> "Government have agreed to give budgetary support for wages, salary and bonus to cover the shortfall faced by them till such time that funds start flowing from sale of surplus land and assets. NTC is having internal generation of funds through their operations and job work. The Rs. 2005.72 crore modernisation covers working capital needs to the tune of Rs. 495.76 crore."

3.43 On the Committee's remark that the workers of NTC mills would continue to enjoy their wages and salaries, but mills would not, in any case, go beyond the production process, the Joint Secretary of the Ministry of Textiles further stated:

> "Presently, out of 1.7 lakh workers, idle wages are being paid to about 16,000 workers. The remaining workers are operating the mills to a certain extent. So, we are getting some contribution for funding the salaries and wages of those employees."

3.44 The Ministry of Textiles in their communication dated the 8th October, 1997 while furnishing the latest position on the modernisation plan submitted as under:

> "Government had approved a revised Turn Around Plan for NTC mills on 9.5.95 which envisaged modernisation of 79 mills with an estimated cost of Rs. 2005.72 crore and restructuring of 36 unviable mills into 18 viable units by way of merger etc. This package was placed before the BIFR for its approval, as 8 out of the 9 subsidiaries of NTC have been referred to BIFR due to erosion of their total net worth. The plan could not be implemented because of non-approval of the package by the BIFR and non-availability of funds. As per the plan, the funds required for modernisation have to be mobilised through sale of surplus lands and assets. As assessed by the CBDT, the total sale of surplus lands and buildings identified for sale would fetch about Rs. 2389 crore. Out of this, approximately 80-85% of the funds are expected to come from the sale of surplus lands and assets of NTC located in Mumbai. In terms of Development Control Regulations (DCR) of Government of Maharashtra, prior clearance of the State Government is compulsory for sale of lands in Mumbai. Further, 2/3rd of the land is also required to be surrendered to the Government agencies of Maharashtra. That means, NTC will get only 1/3rd of the land for sale. However, inspite of our repeated requests, the Government of Maharashtra did not give necessary

clearance till today. The previous MOT had met the Chief Minister of Maharashtra for expediting the permission of the State Government. The present MOT also met the Chief Minister on 4.8.96 and on 14.11.96 and also in September, 1997. Further, the Hon'ble Speaker of the Lok Sabha recently constituted a Committee of five members of Parliament, headed by MOT to meet the Chief Minister for persuading the Government of Maharashtra to obtain clearance. Accordingly, the MOT alongwith the Members of Parliament, met the Chief Minister on 7th June, 1997 and impressed upon them to grant necessary clearance for sale of 100% of the surplus land, without surrendering any land by NTC, because, NTC is a Public Sector Undertaking which deserves special treatment in the interest of the workers. The Chief Minister assured that the State Government would take a decision within a period of one month. It was also agreed that the Chief Secreatary of Maharashtra and the Secretary (Textiles), Government of India would further discuss and work out the modalities. Accordingly, the Secreatary (Textiles) had discussion with the Chief Secretary of Maharashtra on June 17, 1997, and the Chief Secretary of Maharashtra agreed to place all facts before the State Government for taking a suitable decision. However, so far nothing is heard from them. Thus, the funds required for modernisation could not be mobilised.

Out of 9 subsidiaries eight subsidiaries of NTC, except NTC(TN&P), were referred to BIFR. For declaring any unit as viable, BIFR takes into account the issue of net worth becoming positive within a period of 10 years after implementation of the revival package. As per this criteria, the BIFR has held that the net worth of the 4 subsidiaries, namely, NTC(WBAB&O), NTC(UP), NTC(MP) and NTC(GUJ.) Ltd. would not become positive in ten years and, therefore, issued show-cause notices for winding up these companies. In respect of the remaining four Subsidiaries, namely, NTC(DP&R), NTC(APKK&M), NTC(MN) and NTC(SM), the BIFR published rehabilitation packages seeking certain reliefs and concessions, *inter-alia,* from the Central Government which the Ministry of Finance is not willing to extend.

In view of the above facts, it has not been possible to make headway with the 1995 Turn Around Plan. In the meanwhile, on account of cross-subsidisation of funds from profitable mills to loss-making mills, the viable mills are also facing financial crunch. The Government is, however, meeting the shortfall faced by NTC for payment of wages and salaries to its workers.

Extending budgetary support towards payment of wages and salaries every year has been proving to be an unproductive exercise in view of the fact that no definite target is in sight for the revival of the mills. In these circumstances, the NTC had been asked to prepare a unit-wise viability plan for revival of mills. Accordingly, they have submitted a report which is under consideration of the Government. As per the report, 49 mills are found to be viable as their net worth would become positive. The remaining 70 mills are not found viable which need to be closed and the interests of the workers could be protected by offering an attractive VRS. A revised Turn Around Plan, 1997 on the basis of the unit-wise viability has been prepared and is presently under consideration of the Cabinet."

3.45 Annual Report for 1997-98 of the Ministry mentions that the implementation of the Turn Around Strategy as approved by Government in 1995 was dependent primarily on resources to be available out of the disposal of surplus land and other assets available in the mills, which has not materialised so far, for many reasons.

3.46 In a subsequent communication dated the 19th June, 1998 the Ministry of Textiles stated:

"The unit-wise viability report was submitted to the Ministry of Textiles in January, 1997 which was based on accounts as on 31.3.96. Since the Cabinet could not take a final decision on this matter before the change in Government, it has been decided to have the report updated based on the accounts as on 31.3.98. This exercise would give a more realistic picture of the present status of the various mills. The report is, therefore, presently under revision with the NTC(HC) and is expected shortly. On receipt of the same the matter will be further examined and a proposal submitted to the Cabinet for consideration."

## OBSERVATIONS/RECOMMENDATIONS

**3.47 The Committee note that total cumulative amount actually spent i.e. Rs. 505.82 crore for modernisation of NTC mills till 31.3.95 is less than the amount sanctioned i.e. Rs. 584.63 crore. The gap during the Seventh Plan is mainly due to non-release of funds by the financial institutions. Consequentially some schemes taken up on selective basis during the Seventh Plan period could not be fully implemented in time and a number of schemes had also to be dropped. In 1994-95 an amount of Rs. 30 crore, out of a small allocation of Rs. 34.63 earmarked for modernisation fund, was permitted by Government to be utilised for payment of wages and salaries to NTC workers.**

**The Committee are distressed to note that no efforts were initiated in right earnest for making funds available in time for the modernisation of these NTC mills. Otherwise NTC mills would not have reached such a sorry state of affairs.**

**3.48 The Committee are apprised that right from the incorporation of the subsidiaries in 1974, the rate of interest charged on National Textiles Corporation which was 14% was increased to 18% from 1992-93. The amount of accumulated interest on NTC is roughly Rs. 500 crore. The**

Ministry have explained that interest rates for Public Sector undertakings including sick companies was prescribed by the Ministry of Finance. This interest subsidy was given to NTC every year upto 1991-92.

Keeping in view the fact that the health of NTC mills was never sound, the Committee are concerned to observe that hike in the rate of interest charged on loans advanced to NTC adversely affected the already deteriorating condition of National Textiles Corporation mills.

The Committee, therefore, desire that the Government should examine the feasibility of providing funds to NTC mills at subsidised rates of interest and the outcome of the study should be reported to the Committee.

3.49 The Committee note that National Textile Corporation Ltd. (NTC) was set up in 1968 with the main objective of managing the affairs of the 122 sick textile undertakings taken over by Government from time to time. It was also proposed to rehabilitate and modernise these mills after the takeover and expand them wherever necessary with a view to making them economically viable. However, two mills were not started after nationalisation. One mill was closed in 1996 under the order of Supreme Court. At present NTC has under its control 119 mills spread over the country managed by 9 subsidiary corporations.

3.50 The installed capacity of the mills under the NTC as on 31.3.1998 was 31.83 lakh spindles and 29621 looms. The commissioned capacity was 27.12 lakhs spindles and 17658 looms. In regard to financial performance, the Committee note that during the period 1997-98, NTC Ltd. (Holding Company) has reported a provisional net loss of Rs. 685.56 crore as compared to Rs. 621.72 crore during 1996-97. The overall provisional accumulated net loss of the NTC group as a whole as on 31.3.1998 is Rs. 5269 crore as against the overall accumulated net loss of Rs. 4583 crore as on 31.3.1997.

3.51 The Committee are informed that the causes of sickness in NTC mills are manifold. Even at the time of nationalisation, according to the Ministry, most of these mills were sick or were lying closed. Lack of modernisation, high man-machine ratio, inefficient management, lack of work culture, shortage of working capital, payment of idle wages to employees, competition from the powerloom sector which has low labour cost, etc. are the major factors which have continued to contribute to sickness in the NTC mills.

3.52 The Committee feel that the Government resorted to nationalisation of the inefficient private textile mills but during all these thirty years could do nothing to achieve the desired objectives to modernise, expand and make them economically viable. The few textile mills that have been revived have cut down labour and reduced production to a portion of their original capacities. These mills that have been rehabilitated, going by the past experience, can only keep going at present capacities for a few years but there is every possibility that competition may turn them sick again as the factors contributing to sickness in the textile industry continue to remain the same since nationalisation.

3.53 The Committee note that 8 out of 9 subsidiary corporations have been referred to BIFR due to erosion of their total net worth, which has declared them as sick industrial companies under the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985. Based on the revival plans prepared by Textile Research Associations, the Government approved in May, 1995 a revised Turn Around Plan for modernisation of 79 mills with an estimated cost of Rs. 2006 crore and restructuring of 36 unviable mills into 18 viable units by way of merger, etc. As per plan, the resources required for modernisation have to be mobilised through sale of surplus lands and assets in the mills. Approximately 80-85% of the funds were expected to come from sale of surplus lands and assets of NTC mills located in Mumbai. So far nothing has materialised in this area for many reasons. The funds required for modernisation could not be mobilised. The plan could not be implemented because of non-approval of the package by BIFR and non-availability of funds.

3.54 The Committee have been further informed that the unit-wise viability report was prepared by NTC based on accounts as on 31.03.1996. As per the report, 49 mills were found to be viable and the remaining 70 mills were not found to be viable which needed to be closed and the interest of the workers protected by offering an attractive VRS. A revised Turn Around Plan 1997 on the basis of unit-wise viability had been prepared and was under consideration of the Cabinet. However, the Cabinet could not take a final decision on the matter.

3.55 The Committee are informed by the Ministry of Textiles vide their communication of 19 June, 1998 that the present Government have decided to have the unit-wise viability report updated based on the accounts as on 31.03.1998 to have a more realistic picture of the present status of the various mills. On receipt of the updated viability report the matter would be further examined and proposals submitted to the Cabinet for consideration.

3.56 The Committee are deeply concerned to note that implementation of the Turn Around Strategy as approved by the Government in 1995, dependent primarily on the resources to be available from sale of surplus land and other assets available in the NTC mills, could not materialise due to non-clearance by State Governments for many reasons. The revised Turn Around Plan 1997 prepared by NTC on the basis of unit-wise viability based on accounts as on 31.03.1996 in which 49 mills were found to be viable and 70 mills unviable, was under consideration of the Government. However, the Cabinet could not take a final decision on the matter. The present Government have decided to have the unit-wise viability report on NTC mills updated based on the accounts as on 31.03.1998 to have a realistic picture of the present worth of the various mills.

**3.57 The Committee do realise that budgetary support to NTC to cover shortfall faced by them towards payment of wages, salary and bonus cannot go on for long without any definite target for revival of the sick mills. It would only be putting unproductive and unnecessary burden on the public exchequer, thus aggravating difficulties of the Government on mounting fiscal deficits. The textile mills which are chronically sick and cannot be revived should be closed down and other sick mills which are potentially viable should be rehabilitated within the specified time frame. The Committee, therefore, desire that the proposed unit-wise viability report on NTC, updated on the basis of accounts for the year ending 31 March, 1998, should be expeditiously finalised and potentially viable mills should be modernised within a specified time frame.**

**3.58 The Committee also desire that in view of tremendous growth in the textile industry in the private sector, especially in the powerloom sector because of its greater cost effectiveness and adequate availability of cloth in the country the Government should review their role in running of NTC mills and consider the feasibility of disinvestment and privatisation of these NTC mills.**

**3.59 As per the Annual Report of the Ministry of Textiles for the year 1997-98 there were 97609 workers on roll at the end of February, 1998. As per the Turn Around Strategy 1995, 62086 workers and 7385 officers and staff totalling 69471 employees were identified as surplus. Since September, 1992 when the Voluntary Retirement Scheme (VRS) was introduced, 52683 employees have opted for VRS benefits upto February, 1998. The balance surplus employees yet to take VRS is 16788. According to the revised Turn Around Plan, 1997 prepared on unit-wise viability report based on accounts as on 31.3.1996, 49 mills were found to be viable and remaining 70 mills unviable which needed to be closed and interest of the workers protected by offering VRS. The number of unviable mills and recommended for closure may again change after updated unit-wise viability report based on the accounts as on 31.3.1998 is finalised. As such, apart from surplus employees, a large number of workers would have to be retrenched on account of closures of these unviable mills.**

**The main objective of any VRS proposal is to improve the productivity of the unit, raise efficiency and also profitability of the viable units. The Committee desire that at the same time the interest of workers declared surplus on modernisation of viable mills and rendered jobless on closure of unviable mills should be adequately protected by offering them attractive VRS package. Similar compensation package to retrenched workers of textile units destined for closure should also be offered.**

NEW DELHI;
*December* 2, 1998

*Agrahayana* 11, 1920 *(S)*

MADHUKAR SIRPOTDAR,
*Chairman,*
*Committee on Estimates.*

## APPENDIX I

## MINUTES OF SITTING OF THE ESTIMATES COMMITTEE (1995-96)

### Eleventh Sitting

The Committee sat on Thursday, the 14th December, 1995 from 1600 to 1800 hours.

### PRESENT

Shri S. B. Sidnal — *Chairman*

MEMBERS

2. Shri Ram Tahal Chaudhary
3. Shri Anadi Charan Das
4. Shri R. Jeevarathinam
5. Shri Suraj Mandal
6. Shri Ajoy Mukhopadhyay
7. Shri Rameshwar Patidar
8. Shri Dharamanna Mondayya Sadul
9. Shri Chattrapal Singh
10. Kum. Frida Topno
11. Shri Bhawani Lal Verma
12. Maj. Gen. R. G. Williams

SECRETARIAT

1. Smt. Roli Srivastava — *Joint Secretary*
2. Shri K. L. Narang — *Deputy Secretary*
3. Shri Raj Shekhar Sharma — *Under Secretary*
4. Shri R.C. Kakkar — *Assistant Director*

WITNESSES

*Ministry of Textiles*

1. Shri Ajit Singh — *Joint Secretary*
2. Shrimati Rukmani Haldea — *Joint Secretary*

*Office of the Textile Commissioner*

3. Shri K. Rajendran Nair — *Textile Commissioner*

*National Textile Corporation Ltd.*

4. Shri P.S. Cheema — *CMD, NTC(HC) Ltd.*

2. The Committee in the absence of Chairman chose Shri Suraj Mandal, M.P. to act as Chairman for the sitting under Rule 258(3) of the Rules of

Procedure and Conduct of Business in Lok Sabha. However, the Chairman, joined later at 1730 hrs. and took the Chair.

3. ** ** **

4. In connection with the oral evidence of the representatives of the Ministry of Textiles on the subject of Sickness/Closure of Textile Industry, a letter regarding the absence of Secretary, Ministry of Textiles from the sitting of Estimates Committee due to his sickness addressed to the Private Secretary to the Chairman received from P.S. to the Secretary was placed before the Committee. The Committee viewed this to be improper and took a very serious note of the fact that the request was not made by the Secretary himself to the Chairman, Estimates Committee as provided under Direction 59(1) of the Directions by the Speaker, Lok Sabha, for seeking exemption from the sitting in spite of the fact that the Secretary was in station and present in office in the first half of the day. They expressed their strong displeasure over his absence from the sitting of the Committee and desired the representatives of the Ministry present during the sitting to convey the feelings of the Committee to the Secretary. The Committee also directed that the Secretary of the Ministry should tender his explanation for absence and also for not seeking prior permission of the Chairman for exemption from the sitting of the Committee in writing himself. They cautioned them that this should not be repeated in future.

5. The Committee then heard oral evidence of the representatives of the Ministry of Textiles on the subject of Sickness/Closure of Textile Industry.

6. A verbatim record of proceedings was kept.

*The Committee then adjourned.*

## APPENDIX II

## MINUTES OF SITTING OF THE ESTIMATES COMMITTEE (1995-96)

### Twelfth Sitting

The Committee sat on Tuesday, the 16th January, 1996 from 1500 to 1730 hours.

### PRESENT

Shri S.B. Sidnal — *Chairman*

MEMBERS

2. Shri Narain Singh Chaudhari
3. Shri Ram Tahal Chaudhary
4. Shri Anadi Charan Das
5. Shri Shrish Chandra Dikshit
6. Shri Balin Kuli
7. Shri Suraj Mandal
8. Shri Bhubaneshwar Prasad Mehta
9. Shri C.P. Mudalagiriyappa
10. Shri Ajoy Mukhopadhyay
11. Shri P.G. Narayanan
12. Shri Hari Kewal Prasad
13. Shri Sudarsan Raychaudhuri
14. Shri A. Venkata Reddy
15. Shri Chattrapal Singh
16. Shri Chinmayanand Swami
17. Kum. Frida Topno
18. Shri B.K. Tripathy
19. Shri Shankersinh Vaghela
20. Shri Bhawani Lal Verma
21. Maj. Gen. R.G. Williams
22. Shri D.P. Yadav
23. Shri Ram Sharan Yadav

SECRETARIAT

1. Smt. Roli Srivastava — *Joint Secretary*
2. Shri K. L. Narang — *Deputy Secretary*
3. Shri Raj Shekhar Sharma — *Under Secretary*
4. Shri R.C. Kakkar — *Assistant Director*



3994/LS/F—5-A

WITNESSES

*Ministry of Textiles*

1. Shri Ajit Seth — *Joint Secretary*
2. Smt. Rukmani Haldea — *Joint Secretary*

*Office of the Textile Commissioner*

3. Shri K. Rajendran Nair — *Textile Commissioner*

*National Textile Corporation Ltd.*

4. Shri P.S. Cheema — *CMD, NTC (HC) Ltd.*

*Ministry of Finance (Banking Division)*

5. Shri Y.V. Reddy — *Secretary*

*IFCI*

6. Shri K.D. Aggarwal — *Chairman*

*IDBI*

7. Shri G.P. Gupta — *Executive Director*

*Ministry of Labour*

8. Shri M.N. Buch — *Additional Secretary*
9. Shri Abhik Ghosh — *Joint Secretary*

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4. ** ** **

5. ** ** **

6. The Committee then heard oral evidence of the representatives of the Ministries of Textiles, Finance (Department of Economic Affairs) and Labour on the subject of Sickness/Closure of Textile Industry.

7. A verbatim record of proceedings was kept.

(The witness then withdrew)

8. ** ** **

*The Committee then adjourned.*

# APPENDIX III

## MINUTES OF SITTING OF THE ESTIMATES COMMITTEE (1998-99)

### Fourth Sitting

The Committee sat on Tuesday, the 3rd November, 1998 from 1500 to 1630 hours.

### PRESENT

Shri Madhukar Sirpotdar — *Chairman*

MEMBERS

2. Dr. Shakeel Ahmad
3. Shri G.M. Banatwala
4. Prof. Prem Singh Chandumajra
5. Shri Bikram Keshari Deo
6. Smt. Rama Devi
7. Shri N.N. Krishnadas
8. Shri Sanat Kumar Mandal
9. Shri Bhubaneswar Kalita
10. Shri Arvind Tulsiram Kamble
11. Shri Rama Chandra Mallick
12. Shri Nikhilananda Sar
13. Shri Abdul Fazal Golam Osmani
14. Dr. Chhattrapal Singh
15. Dr. Mahadeepak Singh Shakya
16. Shri Maheshwar Singh
17. Dr. Ramesh Chand Tomar
18. Prof. (Smt.) Rita Verma

SECRETARIAT

1. Shri K. L. Narang — *Director*
2. Shri Raj Shekhar Sharma — *Under Secretary*
3. Shri N.C. Gupta — *Assistant Director*

2. The Committee considered their draft Report on Ministry of Textiles—Sickness/Closure of Textile Industry and adopted the same with some modifications/amendments as indicated in the Annexure.

3. The Committee authorised the Chairman to incorporate information on Rs. 25,000 Crore Technology Upgradation Fund etc. sought from the Ministry of Textiles and finalise the Report after making necessary changes.

4. The Committee also authorised the Chairman to finalise the Report in the light of verbal and consequential changes, if any, arising out of factual verification from the Ministry and to present the same to Lok Sabha.

*The Committee then adjourned.*

*ANNEXURE*

*Amendments/modifications made by the Estimates Committee in the draft Report on Sickness/Closure of Textile Industry*

| Para | Sentence | Amendments/Modifications |
|---|---|---|
| 1 | 2 | 3 |
| 1.40 | | *ADD* at the end<br>"The Committee desire that efforts should be made by the owners for upgradation of technology for modernisation of their mills. Government should also consider incentives such as availability of bank credit at lower interest rate, etc. to encourage investment for modernisation of mills." |
| 1.44 | Second and Third Sentence | *FOR* "The Committee, however find it interesting that no mill is stated to have been permanently closed under the Industrial Disputes Act, 1947. However, 124 mills have been temporarily closed down without any permission under Section 25(O) of the Industrial Disputes Act, 1947."<br>*SUBSTITUTE* "The Committee, however, find it interesting that all mills have been voluntarily closed and no mill has sought permission under the Industrial Disputes Act, 1947 for closing it down permanently. However, 124 mills have been temporarily closed down avoiding prior permission required under Section 25(O) of the Industrial Disputes Act, 1947." |
| 1.45 | | *ADD* at the end<br>"viz. in Maharashtra there is Bombay Industrial Regulation Act for the purpose." |
| 2.92 | First Sentence | *After* "set up"<br>*Insert* "in July, 1998" |
| 2.93 | | *ADD* new Para 2.93<br>"To rejuvenate the textile industry, the Committee also desire as follows:—<br>(i) availability of bank credit at lower interest rate to enable industry to finance its requirement of cotton, being raw material and a seasonal commodity specially during the peak season;<br>(ii) to ensure availability of quality cotton at fair prices. Care should be taken in formulation of policy for export of cotton and sufficient availability for domestic industry;<br>(iii) banks and other financial institutions may consider moratorium against payment of loans for two to three years to deserving textile mills; and<br>(iv) Government of India may consider reintroducing its 1989-90 scheme for granting interest free excise loan repayable in seven years to sick units." |

## APPENDIX IV

## STATEMENT OF OBSERVATIONS/RECOMMENDATIONS

| Sl. No. | Para No. | Observations/Recommendations |
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| 1. | 2 | 3 |
| 1. | 1.36 | The Committee note that the textile industry in India has been expanding from year to year. The total number of textile mills in the country as on 31.3.95 was 1395. The figure rose to 1767 as on 31.3.1998. Of these, 192 are in the public sector, 151 in the co-operative sector and 1424 are in the private sector deploying a total labour force of about 10 lakhs. |
| 2. | 1.37 | The Committee further note with concern that 333 mills have been registered with BIFR as sick units on 24.3.98 whereas 220 cotton/man-made fibre mills (127 spinning and 93 composite) were lying closed as on 31.3.98. They have further been informed that 170 mills were temporarily closed while 50 mills were closed under liquidation. |
| 3. | 1.38 | The Committee find that one main reason for sickness in the textile industry is the structural transformation resulting in composite units in the organised sector losing ground to powerlooms in the decentralised sector on account of the latter's greater cost effectiveness. The Committee are further informed that other reasons for sickness/closure in textile industry are lack of modernisation, low productivity of both machine and labour, increase in cost of inputs and difficulties in getting timely and adequate working capital finance, etc. |
| 4. | 1.39 | The Committee are of the view that obsolete technology is the main factor behind the sickness of the textile industry. Modernisation by replacement of outdated machinery at the earliest is the need of the hour. The processing and weaving sectors, in particular, are in urgent need of technological upgradation. It would not only help in reduction of |

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| | | cost of production but also in improving the quality of the end product. In the opinion of the Committee these mills have not fallen sick overnight, they needed modernisation which was long overdue. |
| 5. | 1.40 | The Committee feel that there is an urgent need to arrest sickness in the industry and steps should be taken in the right direction. They are of the view that the textile sector should be assigned an important place and all-round efforts should be made to free it from constraints/problems which are hindering its development. |
| 6. | 1.41 | The incidence of sickness is more pronounced in the States of Gujarat, Maharashtra and Tamil Nadu. The Committee note with concern that in metropolitan towns, land under mills are gradually becoming prime urban land and this has contributed to the decision of the management to close the mills with the objective of selling land for lofty profits. |
| 7. | 1.42 | Keeping in view the fact that modernisation is a continuous process, the Committee stress upon the need to update technology in textile mills and to take urgent steps necessary to improve the failing health of the textile industry. The Committee desire that efforts should be made by the owners for upgradation of technology for modernisation of their mills. Government should also consider incentives such as availability of bank credit at lower interest rate, etc. to encourage investment for modernisation of mills. |
| 8. | 1.43 | The Committee note that Government have taken steps for the healthy growth of the Textile Industry as a whole, but at the same time they would recommend that special attention and help to combat sickness should be given to the States of Gujarat, Maharashtra and Tamil Nadu where the backbone of the textile industry of the country is situated by identifying the specific problems faced by these States. |
| 9. | 1.44 | The Committee are informed that as on 31.03.98, a total of 220 mills have been closed and 2,60,343 workers rendered unemployed. The Committee, however find it surprising that all mills have been voluntarily closed and no mill has sought permission under the Industrial Disputes Act, 1947 for closing it down permanently. However, 124 mills have been temporarily closed down avoiding prior permission required under Section 25(O) of the Industrial Disputes Act, 1947. This is a matter of deep concern to the Committee. |

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| 10. | 1.45 | The Committee note that according to the Industrial Disputes Act, 1947 Central Government is the appropriate authority for deciding on the closure of mills in so far as the Central Public Sector Undertakings including some concerned and for the rest, their respective State Governments are the appropriate authority *viz.* in Maharashtra there is Bombay Industrial Regulation Act for the purpose. |
| 11. | 1.46 | The Committee desire that stringent action should be taken by the State Government concerned against the mills which have been closed down without permission, thereby throwing labourers out of employment without payment of their dues. |
| 12. | 1.47 | Looking at the trend of closing down of the mills one after the other, the Committee feel that the closure of textile mills, if goes unchecked, would adversely affect the health of the textile industry and create multifarious problems including socio-economic in future. The Committee, therefore, desire that serious attention needs to be given towards problems leading to the closure of textile mills in various parts of the country. Further, issues arising out of closure of textile mills *viz.* unemployment of workers, etc. need to be attended to on priority basis. Concerted steps should be taken to protect the interests of the labourers of these closed textile mills. |
| 13. | 1.48 | The Committee note with concern that there is no machinery in the Ministry of Textiles to detect sickness in individual private textile mills at an incipient stage. After establishment of the Board for Industrial and Financial Reconstruction (BIFR), sickness in all industries including textile units, are looked into by the Board. Under provisions in Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985, all sick industrial companies are required to report their sickness to BIFR. Further, Section 23 of the Sick Industrial Companies (Special Provisions), Act, 1985, was amended w.e.f. 1.2.1994 by adding new Section 23-A to ensure that in case the company does not report its sickness to BIFR, other involved agencies may report the facts |

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| | | of any such incipient sickness in units to BIFR so that necessary steps could be taken to arrest the sickness. However, no case of incipient sickness in textile industry has been reported to BIFR by FIs/Banks/ State Governments, etc. after the amendment. The position in reality may be quite different. The Committee feel that the intended objectives under Section 23A of the Sick Industrial Companies (Special Provisions), Act, 1985 for reporting incipient sickness in units to BIFR by the involved agencies are not being observed. That may be due to either reluctance on the part of the involved agencies like FIs/Banks, State Government authorities, etc. or lack of awareness of the provisions of Section 23A of SICA on the part of the lower rung of administration of these agencies. The Committee desire that the Ministry of Textiles should take up the matter with the Ministry concerned with the administration of SICA for issuing necessary instructions to the concerned agencies for observing statutory provisions for reporting incipient sickness in industrial units to BIFR. |
| 14. | 1.49 | The Committee are informed that a monitoring and surveying section exists in the Office of Textile Commissioner to scrutinise the returns of the textile mills with the view to detecting signs of sickness. |
| 15. | 1.50 | The Committee are unhappy to observe that there is practically no agency existing in the Ministry to keep a track of health of the textile industry in the country. There is no institutional arrangement to detect or check mischief on the part of the management where a textile mill is not actually sick but owners with their ulterior motives want to keep them sick. It is also strange that detection of sickness in textile units at an incipient stage is not known to the Ministry except on reporting by involved agency to BIFR as per provisions of the SICA, 1985 which in actual practice is not being done despite statutory provisions. The Committee are given to understand that the major functions of the Ministry of Textiles, *inter-alia*, include regulation and development of the entire textile sector in the country. But with the |

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| | | present pathetic state of health of the textile industry there are doubts whether the Ministry of Textiles is performing the assigned functions as the emerging challenges demand. |
| 16. | 1.51 | The Committee recommend that suitable institutional arrangements may be made in the Ministry for the following:<br>(i) to have a detailed report on each and every textile mill in the country;<br>(ii) to maintain data regarding closures, etc. of textile mills in the country and to have a mechanism for smooth flow of information regarding closure of textile mills among the State Governments, Ministry of Textiles and Ministry of Labour;<br>(iii) to maintain data regarding detection of sickness at the incipient stage in the textile industry and to initiate suitable preventive measures to minimise/arrest sickness which may lead to closure of textile mills;<br>(iv) to detect and check self-created sickness in the textile units by the unscrupulous managements; and<br>(v) to maintain data in respect of sickness in the private sector mills to enable the Ministry to have proper information on the real state of health of the textile industry in the country. |
| 17. | 2.70 | The Committee note that in pursuance of the Textile Policy of 1985, the Government have taken various measures to tackle the problem of sickness in the textile industry *i.e.* through setting up of a Nodal Agency, a Textile Modernisation Fund Scheme, Textile Workers Rehabilitation Fund Scheme, establishing a Board for Industrial and Financial Reconstruction and through monitoring the incidence of growing sickness in industries (including textile) by by Financial Institutions and Banks. |
| 18. | 2.71 | The Committee are informed that a Nodal Agency came into existence in January, 1986 as a sequel to the 1985 Textile Policy with IDBI as convenor and |

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| | | representatives drawn from State Governments, RBI Financial Institutions and the Textile Commissioner as members, to determine the viability of sick and weak textile units and to work out the rehabilitation packages in the cases of viable units. The Nodal Agency examined 177 sick/closed textile units in different States. |
| 19. | 2.72 | The Committee further note that with the coming into existence of BIFR, a quasi-judicial body with almost the same objectives as that of Nodal Agency and with comparatively more powers, it was decided by IDBI that the Nodal Agency had no further role to play. |
| 20. | 2.73 | Out of 177 sick/closed mills, 101 mills are working and 76 mills are reported to be closed. Further out of 75 mills (41 in the Private Sector and 34 in Cooperative sector) whose viability studies were not taken up by the Nodal Agency, all the 41 mills in the Private Sector came within the purview of BIFR in terms of the Sick Industrial Companies (Special Provisions) Act, 1985. Out of these 41 mills, 12 mills were registered with BIFR as on 24.3.98, BIFR sanctioned rehabilitation scheme in case of four mills and winding up orders were issued in respect of three mills. One mill was declared as no longer sick. However, the details in respect of the remaining 29 mills have not been furnished by the Ministry. Out of 34 cooperative mills, 3 mills have repaid the loan. While legal action was initiated in respect of 13 cases for recovery of dues, privatisation was being explored in respect of 3 cases. However, the details in respect of 15 non-lead cases is not available with IDBI. |
| 21. | 2.74 | The Committee find it surprising that details in respect of 29 Private Sector mills have not been furnished by the Ministry of Textiles and details in respect of 15 mills in Cooperative Sector are not available with the IDBI. The Ministry of Textiles who are entrusted with overall responsibility for policy formulation, regulation and development of the textile industry in the country, have not bothered to ascertain and furnish details of these mills to the Committee. This is a clear evidence of unsatisfactory functioning of the Ministry. The Committee feel that the Ministry of Textiles should have made earnest efforts to ascertain the details of these sick mills as also to get their viability determined. |

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| 22. | 2.75 | The Committee note that in pursuance of the Textile Policy Statement, 1985, a Textile Modernisation Fund Scheme (TMFS) was set up by the Government in 1986 for providing modernisation assistance with an initial corpus of Rs. 750 crore for a period of five years. |
| 23. | 2.76 | Under TMFS loans were provided for modernisation and also to address special problems of weak but viable textile units. As on 31.3.1993 Rs. 1367.39 crore have been sanctioned for 357 cases and Rs. 877.74 crore have been disbursed to 307 cases.<br><br>Out of these 357 units assisted, 306 units have partly/fully utilised the assistance by availing Rs. 871 crore. Assistance sanctioned for modernisation from August, 1991 to March, 1995 aggregated to Rs. 421.2 crore covering 147 cotton textile mills. |
| 24. | 2.77 | The Committee have been informed that the Textile Modernisation Fund Scheme was discontinued from August, 1991 even though the Ministry of Textiles was in favour of continuance of the Scheme during the Eighth Plan by doubling of the fund to Rs. 1500 crore. Now the textile mills get finances through the normal channels only. |
| 25. | 2.78 | About the impact of modernisation under TMFS the Committee are informed that direction of modernisation has been mainly towards replacement of old and obsolete looms by modern auto looms. These units have also simultaneously endeavoured to increase surplus yarn available for market sale through suitable modernisation in the Spinning Departments. But some of these mills again fell sick. About 225 mills have availed of TMF Scheme loans, out of those 16 mills were temporarily closed as on 31.10.95. |
| 26. | 2.79 | The Committee are further informed that IDBI had made an assessment of impact of modernisation on textile industry. A major portion of modernisation assistance had been spent on spinning department followed by weaving department. The IDBI study showed that after modernisation both spinning and composite units have shown better technical performance in terms of machine productivity resulting in higher value of output in case of spinning units and better quality output in most of the composite mills. But, there did not appear to be any significant change in the overall profitability of operations of the units following completion of |

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| | | modernisation schemes although export capability have enhanced considerably both for spinning and composite units. |
| 27. | 2.80 | Under TMFS, loan assistance at concessional rates was provided for modernisation as also for weak but viable textile units both in the private sector and in the cooperative sector in the country. It is really unfortunate that the Ministry of Textiles have no detailed information about such sick but viable textile units in these two sectors. The Committee, therefore, desire the Ministry of Textiles to undertake a study to evaluate the impact of modernisation assistance under TMFS and the need for reintroduction of TMFS to regenerate the ailing but viable textile industry in the country. |
| 28. | 2.81 | The Committee note that the Textile Workers Rehabilitation Fund Scheme (TWRFS) introduced by the Central Government to protect the interests of the workers rendered jobless due to permanent closure of mills came into force w.e.f. 15th September, 1986. The rationale behind the creation of this fund is to assist the workers during the period of transitional adjustment and to enable them to settle in an alternative employment. Now TWRFS has also been made applicable to the cases of partial closure on a case to case basis. Since its inception the benefits under the scheme have been extended to mills in the Private Sector only. |
| 29. | 2.82 | The Committee also note that the scheme is applicable to workers earning wages equivalent upto Rs. 2,500/- per month for the interim period during which the worker should try to get himself rehabilitated. Relief under the scheme is available only for 3 years on a tapering basis, 75% of the wage equivalent in the first year, 50% in the second year and 25% in the third year. The relief is in addition to all other reliefs or compensations available to workers under various Acts applicable to a closed mill. |
| 30. | 2.83 | As on 31.3.1998, a sum of Rs. 96.75 crore has been paid to 48054 workers under the Scheme. The remaining workers will be covered after receiving |

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| | | complete applications duly certified by the State Governments. The Committee desire that in order to obviate hardship to the workers due to delay in providing relief, the Ministry of Textiles/Office of the Textile Commissioner, should impress upon the State Government/authorities concerned for furnishing expeditiously certified applications of the workers eligible under the scheme and that on receipt of certified applications payment to such displaced workers should be made without any delay. The Committee would like to be apprised of the specific measures taken by the Government in this regard. |
| 31. | 2.84 | The main problem faced by the Government in the way of rehabilitation of textile workers rendered jobless due to closure is to find alternative 'job opportunities' for them and to make them suitable for such alternative jobs. The Committee regret to note that there is no scheme to impart training for alternative jobs for workers rendered jobless.<br>The Committee feel that when a mill has been closed and labourers are thrown out, then there should be some mechanism or programme to rehabilitate them. Keeping in view the fact that rehabilitation is not dealt with by the Ministry of Textiles and owner of mill is not taking care of them because the mill being sick, the Government should come forward and evolve an alternate package for their rehabilitation.<br>The Committee, therefore, desire that the Ministry of Textiles may impress upon the State Governments to chalk out suitable rehabilitation schemes/training programmes for rehabilitation of workers rendered jobless. |
| 32. | 2.85 | The Committee note that under the provisions of the Sick Industrial Companies (Special Provisions) Act (SICA) 1985, the Government has set up BIFR, a semi-judicial body to give assistance to the process of revival of some sick industrial companies (including textile mills) and to prepare and sanction, as appropriate, schemes for revival of such mills. The objective of BIFR is to secure timely detection of sick |

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| | | and potentially sick companies. An amendment was made w.e.f. 1.2.94 in Section 23 to ensure that in case the company did not report its sickness to BIFR other involved agencies might report the facts of such units to BIFR so that necessary steps could be taken to arrest the sickness in the initial stage itself. |
| 33. | 2.86 | As on 24.3.1998, 333 textile mills were registered with BIFR since its inception.<br><br>Out of these mills, schemes were sanctioned in 64 cases, 49 cases were dismissed as non-maintainable. The Company's scheme was approved in 11 cases. 98 cases were recommended for winding up and draft scheme has been approved in 10 cases. 45 cases are under enquiry whereas 21 mills are declared no longer sick.<br><br>The Committee are concerned to note that most of the cases, *i.e.* 98 cases have been recommended for winding up. The Committee are, however, informed that OA/BIFR try to explore all possibilities for revival of the companies. |
| 34. | 2.87 | The Committee are surprised to note that the Ministry of Textiles do not have information whether the necessary help from Central or State Governments to those textile units as recommended by BIFR was forthcoming or not and such information regarding financial help provided by Central Government or Financial Institutions or State Governments mill-wise on the recommendation of BIFR is not maintained centrally.<br><br>The Committee expect the Ministry of Textiles to maintain such data in respect of the Textile Sector. Since it takes years to get a BIFR Report and that also winding up comes in a number of cases, the Committee desire that efforts should be made to expedite the cases referred to BIFR. |
| 35. | 2.88 | The Committee regret to note that in cases of textile mills where the BIFR has recommended for revival, no monitoring is done, although their number is limited.<br><br>The Committee recommend that mills where BIFR has recommended for revival, a mechanism needs to be set up to monitor the revival after receipt of revival package by textile mills. |

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| 36. | 2.89 | The Committee are informed that it is neither obligatory nor possible for the Central Government to provide financial assistance to States for revival of sick or closed mills. However, they are apprised that Government of India is making every effort in organised mill sector through TMFS (since closed) to improve the level and quality of production of textile units and TWRFS for displaced workers of closed mills. It is not possible to provide separate financial assistance to each State for revival of private sick mills. |
| 37. | 2.90 | The Committee are apprised that the matter regarding providing finance for modernisation of private mills through World Bank was taken up with the Ministry of Finance in August, 1995. However, the World Bank expressed its inability to provide funds at subsidised rates. The Committee note that the Ministry of Textiles is now exploring the possibility through the Ministry of Finance whether a large corpus of funds could be created with IFC to meet the various investment needs of the private mills.<br><br>The Committee desire that investment avenues of the private sector mills should be explored and the matter should be vigorously pursued with the Ministry of Finance on creation of funds with IFC. The latest position in this regard may also be apprised to the Committee. |
| 38. | 2.91 | The Textile industry plays a pivotal role in the economy of the country. Being the largest industry in the country, it accounts for about one-fifth of the total industrial production, contributes to nearly one-third of total exports and provides employment to millions of people all over the length and breadth of the country. It has a potential to be a global textiles giant but unfortunately its share is declining compared to increasing share of neighbouring countries in the world textile trade. The Committee are deeply concerned at the present status of sickness in the organised textile industry. The Committee desire that Government should initiate concrete |

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| | | measures necessary to tackle the problem of sickness in the textile industry, to improve the techno-economic viability of the industry, to prevent sickness and to make it competitive in the international market. |
| 39. | 2.92 | The Committee note that an Expert Group under the Chairmanship of Shri S.R. Sathyam (former Secretary, Ministry of Textiles) has been set up in July, 1998 for the formulation of a new textile policy which will submit its recommendations in six months. The Committee while welcoming the decision to set up the aforesaid Group desire that expeditious and effective follow up action should be taken on its recommendations to tackle the problems facing the textile industry. |
| 40. | 2.93 | The Committee note that Ministry of Textiles has proposed a special scheme for technological upgradation for the textile industry in order to upgrade the qualilty of textile and to assist the industry to become more competitive in the international and domestic markets. According to the Ministry, the requirement of funds by identified sectors of the industry over a period of five years has been estimated to the order of Rs. 25,000 crore. The Committee expect the Ministry to expeditiously finalise the details of the Technological Upgradation Fund Scheme. |
| 41. | 2.94 | To rejuvenate the textile industry, the Committee also desire as follows:— <br>(i) availability of bank credit at lower interest rate to enable industry to finance its requirement of cotton, being raw material and a seasonal commodity specially during the peak season should be introduced; <br>(ii) availability of quality cotton at fair prices should be ensured. Care should be taken in formulation of policy for export of cotton and sufficient availability for domestic industry; <br>(iii) banks and other financial institutions may consider moratorium against payment of loans for two to three years to deserving textile mills; and <br>(iv) Government of India may consider reintroducing its 1989-90 scheme for granting interest free excise loan repayable in seven years to sick units. |

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| 42. | 3.47 | The Committee note that total cumulative amount actually spent *i.e.* Rs. 505.82 crore for modernisation of NTC mills till 31.3.95 is less than the amount sanctioned *i.e.* 584.63 crore. The gap during the Seventh Plan is mainly due to non-release of funds by the financial institutions. Consequentially some schemes taken up on selective basis during the Seventh Plan period could not be fully implemented in time and a number of schemes had also to be dropped. In 1994-95 an amount of Rs. 30 crore, out of a small allocation of Rs. 34.63 earmarked for modernisation fund, was permitted by Government to be utilised for payment of wages and salaries to NTC workers. |
| 43. | | The Committee are distressed to note that no efforts were initiated in right earnest for making funds available in time for the modernisation of these NTC mills. Otherwise NTC mills would not have reached such a sorry state of affairs. |
| | 3.48 | The Committee are apprised that right from the incorporation of the subsidiaries in 1974, the rate of interest charged on National Textiles Corporation which was 14% was increased to 18% from 1992-93. The amount of accumulated interest on NTC is roughly Rs. 500 crore. The Ministry have explained that interest rates for Public Sector undertakings including sick companies was prescribed by the Ministry of Finance. This interest subsidy was given to NTC every year upto 1991-92. |
| | | Keeping in view the fact that the health of NTC mills was never sound, the Committee are concerned to observe that hike in the rate of interest charged on loans advanced to NTC adversely affected the already deteriorating condition of National Textiles Corporation Mills. |
| | | The Committee, therefore, desire that the Government should examine the feasibility of providing funds to NTC mills at subsidised rates of interest and the outcome of the study should be reported to the Committee. |
| 44. | 3.49 | The Committee note that National Textile Corporation Ltd. (NTC) was set up in 1968 with the main objective of managing the affairs of the 122 sick textile undertakings taken over by Government from time to time. It was also proposed to rehabilitate and modernise these mills after the takeover and expand them wherever necessary with a view to making them economically viable. However, two mills were not started after nationalisation. One mill was closed in |

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| | | 1996 under the order of Supreme Court. At present NTC has under its control 119 mills spread over the country managed by 9 subsidiary corporations. |
| 5. | 3.50 | The installed capacity of the mills under the NTC as on 31.3.1998 was 31.83 lakh spindles and 29621 looms. The commissioned capacity was 27.12 lakhs spindles and 17658 looms. In regard to financial performance, the Committee note that during the period 1997-98, NTC Ltd. (Holding Company) has reported a provisional net loss of Rs. 685.56 crore as compared to Rs. 621.72 crore during 1996-97. The overall provisional accumulated net loss of the NTC group as a whole as on 31.3.1998 is Rs. 5269 crore as against the overall accumulated net loss of Rs. 4583 crore as on 31.3.1997. |
| 46. | 3.51 | The Committee are informed that the causes of sickness in NTC mills are manifold. Even at the time of nationalisation, according to the Ministry, most of these mills were sick or were lying closed. Lack of modernisation, high man-machine ratio, inefficient management, lack of work culture, shortage of working capital, payment of idle wages to employees, competition from the powerloom sector which has low labour cost, etc. are the major factors which have continued to contribute to sickness in the NTC mills. |
| 47. | 3.52 | The Committee feel that the Government resorted to nationalisation of the inefficient private textile mills but during all these thirty years could do nothing to achieve the desired objectives to modernise, expand and make them economically viable. The few textile mills that have been revived have cut down labour and reduced production to a portion of their original capacities. These mills that have been rehabilitated, going by the past experience, can only keep going at present capacities for a few years but there is every possibility that competition may turn them sick again as the factors contributing to sickness in the textile industry continue to remain the same since nationalisation. |
| 48. | 3.53 | The Committee note that 8 out of 9 subsidiary corporations have been referred to BIFR due to erosion of their total net worth, which has declared them as sick industrial companies under the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985. Based on the revival plans prepared by the Textile Research Associations, the Government approved in May, 1995 a revised Turn Around Plan for modernisation of 79 mills with an |

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| | | estimated cost of Rs. 2006 crore and restructuring of 36 unviable mills into 18 viable units by way of merger, etc. As per plan, the resources required for modernisation have to be mobilised through sale of surplus lands and assets in the mills. Approximately 80—85% of the funds were expected to come from sale of surplus lands and assets of NTC mills located in Mumbai. So far nothing has materialised in this area for many reasons. The funds required for modernisation could not be mobilised. The plan could not be implemented because of non-approval of the package by BIFR and non-availability of funds. |
| 49. | 3.54 | The Committee have been further informed that the unit-wise viability report was prepared by NTC based on accounts as on 31.03.1996. As per the report, 49 mills were found to be viable and the remaining 70 mills were not found to be viable which needed to be closed and the interest of the workers protected by offering an attractive VRS. A revised Turn Around Plan 1997 on the basis of unit-wise viability had been prepared and was under consideration of the Cabinet. However the Cabinet could not take a final decision on the matter. |
| 50. | 3.55 | The Committee are informed by the Ministry of Textiles *vide* their communication of 19 June, 1998 that the present Government have decided to have the unit-wise viability report updated based on the accounts as on 31.03.1998 to have a more realistic picture of the present status of the various mills. On receipt of the updated viability report the matter would be further examined and proposals submitted to the Cabinet for consideration. |
| 51. | 3.56 | The Committee are deeply concerned to note that implementation of the Turn Around Strategy as approved by the Government in 1995, dependent primarily on the resources to be available from sale of surplus land and other assets available in the NTC mills, could not materialise due to non-clearance by State Governments for many reasons. The revised Turn Around Plan 1997 prepared by NTC on the basis of unit-wise viability based on accounts as on |

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| | | 31.03.1996 in which 49 mills were found to be viable and 70 mills unviable, was under consideration of the Government. However, the Cabinet could not take a final decision on the matter. The present Government have decided to have the unit-wise viabilility report on NTC mills updated based on the accounts as on 31.03.1998 to have a realistic picture of the present worth of the various mills. |
| 52. | 3.57 | The Committee do realise that budgetary support to NTC to cover shortfall faced by them towards payment of wages, salary and bonus cannot go on for long without any definite target for revival of the sick mills. It would only be putting unproductive and unnecessary burden on the public exchequer, thus aggravating difficulties of the Government on mounting fiscal deficits. The textile mills which are chronically sick and cannot be revived should be closed down and other sick mills which are potentially viable should be rehabilitated within the specified time frame. The Committee, therefore, desire that the proposed unit-wise viability report on NTC, updated on the basis of accounts for the year ending 31 March, 1998, should be expeditiously finalised and potentially viable mills should be modernised within a specified time frame. |
| 53. | 3.58 | The Committee also desire that in view of tremendous growth in the textile industry in the private sector, especially in the powerloom sector because of its greater cost effectiveness and adequate availability of cloth in the country the Government should review their role in running of NTC mills and consider the feasibility of disinvestment and privatisation of these NTC mills. |
| 54. | 3.59 | As per the Annual Report of the Ministry of Textiles for the year 1997-98 there were 97609 workers on roll at the end of February, 1998. As per the Turn Around Strategy 1995, 62086 workers and 7385 officers and staff totalling 69471 employees were identified as surplus. Since September, 1992 when the Voluntary Retirement Scheme (VRS) was introduced, 52683 employees have opted for VRS |

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| | | benefits upto February, 1998. The balance surplus employees yet to take VRS is 16788. According to the revised Turn Around Plan, 1997 prepared on unit-wise viability report based on accounts as on 31.3.1996, 49 mills were found to be viable and remaining 70 mills unviable which needed to be closed and interest of the workers protected by offering VRS. The number of unviable mills and recommended for closure may again change after updated unit-wise viability report based on the accounts as on 31.3.1998 is finalised. As such, apart from surplus employees, a large number of workers would have to be retrenched on account of closures of these unviable mills. |
| | | The main objective of any VRS proposal is to improve the productivity of the unit, raise efficiency and also profitability of the viable units. The Committee desire that at the same time the interest of workers declared surplus on modernisation of viable mills and rendered jobless on closure of unviable mills should be adequately protected by offering them attractive VRS package. Similar compensation package to retrenched workers of textile units destined for closure should also be offered. |

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