CHAPTER – 18

FUND REQUIREMENT AND FINANCING ARRANGEMENTS

INTRODUCTION

18.1 The vision statement of the Eleventh Five Year Plan has targeted a production growth of 12 percent in volume terms, and 22 percent growth in exports on value basis. Accordingly, the production for different segments of the textiles value chain have been worked out in the respective chapters. The existing capacities will not be adequate to meet the target. The incremental capacities have also been worked out for different segments in the respective chapters. To set up these incremental capacities, fund requirement is assessed at Rs.1, 50,600 crore during the five year period.

Segment-wise incremental machinery and investment requirement

18.2 The segment-wise incremental machinery and investment requirement is given in the Table 18.1 below :

Table – 18.1

Segment-wise incremental machinery and investment requirement

S. No.	Sector	Incremental capacity	Investment (In crore)
1	Spinning	29.25 Million Spindles (8.25)*	50,200
2	Weaving	1,08,850 shuttleless looms, 98500 auto looms, 59100 plain looms, 39400 semi-auto looms	20,200
3	Knitting	9,400 M/cs	2,400
4	Processing	38 Billion sq. metres	56,000
5	Garment	14.5 lakh M/cs	21,800
	Total		**1,50,600**

* - Including replacement of machinery

18.3 The total investment envisaged is Rs.1, 50,600 crore during the Eleventh Five Year Plan period. The vision statement of the textiles industry for 2010 has envisaged investment of Rs.1, 40,000 crore for the eight years period, i.e., 2002 to 2010. There is some overlapping between these two targets. However, during the Eleventh Five

Year Plan period the investment target is Rs.1, 50,600 crore. The largest investment is required in the sectors of processing, weaving and spinning. The industry has to be motivated / encouraged to invest in expansion and creation of fresh capacities. The extension of TUFS and encouragement to FDI are necessary for attracting such huge investments.

<u>Technology Upgradation Fund Scheme (TUFS)</u>

18.4 The Technology Upgradation Fund Scheme (TUFS) was launched on 01.04.1999 for 5 years, which was subsequently extended up to 31.3.2007. During 1999-2000, i.e., the first year of the scheme, the progress was moderate, but gained momentum during the 2nd year, i.e, 2000-01. However, progress declined during the 3rd year, i.e., 2001-02. During the 4th & 5th years, i.e., 2002-03 & 2003-04, there was improvement, and during the 6th year & 7th year, i.e., 2004-05 & 2005-06 its performance has improved considerably. The details are at **Appendix – 18.1**.

18.5 During the last seven years and four months of its operation, as on 31.07.2006, 5730 applications with a cumulative project cost of Rs.50,109 crore have been received under TUFS. Out of this, 5471 applications with a project cost of Rs.44, 686 crore have been sanctioned. 4732 applications have been disbursed an amount of Rs.12, 481 crore.

18.6 Tamil Nadu, Gujarat, Punjab and Maharashtra are the major states which have attracted TUFS related assistance, in terms of amount sanctioned and disbursed. These states account for about 70 percent of the amount disbursed. The details are at **Appendix – 18.2**.

18.7 Spinning, Composite Upgradation, Processing and Weaving are the major segments which have availed of assistance under TUFS in terms of amount sanctioned and disbursed. These segments account for about 82 percent of the amount disbursed. The details are at **Appendix – 18.3**.

Need to extend TUFS to Eleventh Plan period

18.8 In order to ensure that the tempo of investment that has begun during the last two-three years in these sectors, it is essential to continue the Technology Upgradation Fund Scheme in its present form until the end of the Eleventh Five Year Plan. Even with the capacities envisaged for the terminal year of the Eleventh Five Year Plan, India will be significantly lower in capacities compared to the China in all segments of the textiles industry especially in spinning, weaving, processing and garmenting. Currently, over 20 percent of the total production of cotton in the country is being exported as raw cotton. Export of cotton yarn has been declining. Obviously, there is significant scope for converting raw cotton currently being exported into yarn, both for exports and for domestic consumption. Investments in the downstream segments of weaving and processing is necessary to ensure that the maximum quantity of yarn produced in the country is converted into finished products domestically in order to meet the increasing requirements of the garment industry. Sufficient supply of yarn and fabrics internally will reduce the dependence of the garment industry on imported yarn and fabrics, and promote significant value addition.

18.9 In China, Pakistan, Spain, and several other competing countries, policy support to the textiles and clothing industry and targets for growth in the sector have been announced by the Governments. China has proposed substantial expansion during the next five years from its present capacities, which already exceed capacity in India several times. In order to remain competitive in international markets, and to withstand increasing competition in the domestic market, it is necessary to ensure large investments in modernisation and expansion. This will be possible only if the TUFS is continued in its present form.

18.10 The interest rates currently available to the textiles and clothing industries of major competing countries are substantially lower than the present PLRs in India. Interest rates are increasing in the country, and the PLRs may continue to increase during the Eleventh Plan period. Interest rates applicable to term loans in some of the competing countries are given below :

(i)	South Korea	4.50 percent p.a.
(ii)	Malaysia	3.50 percent p.a.
(iii)	Taiwan	2.50 percent p.a.
(iv)	Thailand	5.00 percent p.a.

As against this, the current PLR in India is around 11.00 percent p.a.

Fund requirement in case of extension of TUFS without any modification

18.11 Assumptions for working out fund requirement during the plan period

18.11.1 In case TUFS is extended without any modification during the Eleventh Five Year Plan period, the investment expected during 2006-07 will not exceed Rs.20,000 crore.

18.11.2 The investment under TUFS is considered on the base of the year 2006-07, with graded yearly increases of 5 percent, 10 percent, 7 percent, 5 percent, and 10 percent, respectively, during the Eleventh Five Year Plan period.

18.11.3 In line with the present pattern of project cost and amount sanctioned, of total investment required, (i.e., Rs.1, 50,600 crore) only 45 percent would be eligible for assistance under TUFS.

18.11.4 In line with the present pattern, only 58 percent of the amount sanctioned would be disbursed in a particular year.

18.11.5 Though the repayment period under TUFS is ten years (including two years moratorium), the actual average repayment period is eight years. Therefore, for working out the subsidy requirement for TUFS a period of eight years has been considered.

An additional amount towards the 5 percent interest reimbursement for loans sanctioned / disbursed during the Tenth Five Year Plan will also be required. The estimated amount for this is Rs.4, 418 crore. The details are given **Appendix – 18.4**.

Table – 18.2

Estimated project cost sanctioned, amount sanctioned, amount disbursed and 5 percent interest reimbursement under TUFS

(Rs. crore)

Year	Project cost sanctioned	Amount sanctioned	Amount disbursed	5 percent subsidy
2007-08	25644	11550	6699	335
2008-09	28208	12705	7369	703
2009-10	30183	13594	7885	1063
2010-11	31692	14274	8279	1383
2011-12	34873	15701	9107	1680
Total	**150600**	**67825**	**39338**	**5163**

18.12 Based on the above assumptions, the project cost sanctioned, amount sanctioned, amount disbursed, and subsidy are given in Table 18.2. (The details of subsidy calculation are given **Appendix – 18.5**):

18.13 Funds will be required to continue the 10 percent capital subsidy for specified processing machinery. The total investment in processing machinery has been estimated at Rs.56, 000 crore. This includes machinery and other related expenditure. The cost of machines eligible for capital subsidy is estimated at Rs.5, 600 crore (10 percent of the total investment). On this basis, the fund requirement for upfront subsidy for processing machinery would be Rs.560 crore. In addition to this, the 15 percent capital subsidy for the SSI sector will also be required. It is estimated that Rs.300 crore will be required for 15 percent CLCS. The estimate for CLCS – 20 percent for Powerlooms sector - is Rs.874 crore. The summarized position is given below :

Table – 18.3

Summarised position for fund requirement under TUFS

Sr. No.	**Type of subsidy under TUFS**	**Amount required (Rs. crore)**
1.	**5 percent interest reimbursement**	
(i)	Cases sanctioned / disbursed during Tenth Plan	4418
(ii)	Cases sanctioned / disbursed during Eleventh Plan	5163
	Sub Total	**9581**
2.	**15 percent CLCS for SSI Sector**	300
3.	**10 percent CLCS for Processing Sector**	560
4	**20 percent CLCS for Powerloom Sector**	874
	Total	**11315**

Need to encourage FDI

18.14 Despite TUFS, there is reason to believe that domestic investment may not be sufficient to achieve our targets, and there is a pressing need to attract FDI in the textiles sector. The FDI benefit cannot be interpreted in monetary terms only. Significant attendant benefits will also be forthcoming: technology transfer, import of latest technical know-how, latest manufacturing practices and processes, financial and marketing support, latest trends of fashion designs, styles, overall quality enhancement in line with world standards, creation of mega facility processing plants with large scale capacities etc.

18.15 The success of China in emerging as the fastest growing economy in the world is contributed to a great extent by large scale FDI flowing into the country, including the textiles sector. Currently, India is the 2nd largest textiles economy in world after China, but the gap between the two economies is huge. In order to reduce this gap and sustain the position of the second largest textiles economy for India, there is a need to attract FDI in the textiles sector.

18.16 Total FDI in India during 2005 was only US$ 4.36 billion as compared to US$ 65 billion in China. The textiles and clothing sector attracted only 1.80 percent (US$ 78.99 million) in overall FDI, whereas in China the figure was 8.3 percent (US$ 5.4 billion).

Specific areas needing FDI

18.17 The following segments need FDI to a significant extent:

18.17.1 **Textiles machinery sector -** the requirement for the latest equipment in the textiles industry is growing phenomenally. However, the installed capacity of textiles machinery manufacturers is not adequate to meet this demand. The domestic textiles machinery is projected to triple its capacity during the Eleventh Five Year Plan with adequate support from the Government. However, even with enhanced capacity, the indigenous textiles machinery industry would not be able to meet the demand of the industry. For example, during the Eleventh Plan, incremental requirement for spindles is 29.5 million (21 million incremental + 8.50 million for replacement). This means additional spindles would be required at the rate of 5.90 million spindles per annum. However, the indigenous textiles machinery industry has projected the capacity of 3.85 million spindles per annum by the end of Eleventh Plan. Similarly, an incremental 1.09 lakh shuttleless looms will be required to be installed by the industry (20,000 by the organized sector + 88,851 by powerlooms sector). Against this requirement, the textiles machinery industry has projected the capacity of 20,000 shuttleless looms by the terminal year of the Eleventh Plan. Further, the indigenous textiles machinery industry has no presence in knitting and garmenting machinery.

18.17.2 The Working Group feels that reputed textiles machinery manufacturers in the spinning, weaving and processing sectors should set up facilities in India to meet the growing requirement of Indian industry. One of the biggest factors that has triggered the growth of the Chinese industry is the domestic availability of the textiles machinery. Reputed textiles machinery manufacturers from developed countries have set up their units in China, and have developed models which are suitable to the Chinese industry. There is a need to encourage these global manufacturers to set up their units in India as per the needs of the Indian textiles industry. To increase the FDI, the Working Group recommends that Government may consider FDI proposals of textiles machinery manufacturers on selective basis, independent of the stipulations spelt out in the Press Note No. 18.

18.17.3 **Apparel manufacturers** – Large scale apparel units have been set up through FDI in China. Such entrepreneurs are also looking for alternative manufacturing bases and can be attracted to India to set up their manufacturing facilities.

18.17.4 **Synthetic fabrics** – The decentralized sector accounts for approximate 85-90 percent of the production of synthetic fabrics and is not able to meet the demand of readymade garment exporters for specialised fabrics. Therefore, vendors in Taiwan, Korea can be encouraged to set up weaving facilities of synthetic fabrics in the country.

18.17.5 **Technical textiles** – This is a knowledge-based industry which is at nascent stage in the country and offers tremendous opportunities for joint ventures and FDI.

18.18 In a report published by ATKearney, a leading management consulting firm in 2005, India has been ranked the second most attractive destination for FDI. The attractiveness of India will continue in the present climate of focused reforms and emphasis on the development of infrastructure, logistics and lowering of regulatory barriers.

18.19 The Working Group proposes that impediments to FDI in the textile sector may be examined by the Government and they may be removed. Government can consider FDI proposals on selective basis, independent of the stipulations in the Press Note 18.

18.20 FDI Cell has been set up in the Ministry of Textiles to attract foreign direct investment in textiles, clothing and machinery. The Action Plan for attracting FDI consists of i) identification of countries, which are strong in certain product segments and technically capable foreign firms/ investors looking to invest abroad, who could be targeted for making India as an investment destination for textiles and clothing, ii) preparing a document outlining the advantages of investing in India and the nature of infrastructural, policy, institutional, financial and other support structure available in India, iii) preparing a targeted communication strategy and making representations to potential investors, which includes organization of National summits in India, international summit abroad, and reverse international summit in India, sending delegations to prospective investing countries and engage overseas firms in a dialogue to invest either by forging alliances with Indian companies or investing in fresh capacities in India, and iv) addressing operational problems such as infrastructure like inadequacy of transport and energy and administrative hassles regarding approval from local governments etc. During Eleventh Five Year Plan, the proposed outlay is Rs. 26.86 crore.

Need to extend the Scheme for Integrated Textile Parks (SITP) during Eleventh Plan Period

18.21 Phasing out of quota restrictions from 1.1.2005, has provided a competitive environment in the international market for textiles and clothing, wherein the success would be determined solely by factors like quality, prices, design, adherence to delivery schedules, marketing skills, etc. Though the Indian textile industry has its inherent advantages, infrastructure bottlenecks is one of the prime areas of concern. With a view to take advantage of the phasing out of quantitative restrictions from 2005, Government had launched the Apparel Parks for Exports Schemes (APES) and the Textile Centre Infrastructure Development Scheme (TCIDS) to provide world class export infrastructure, in 2002. Whereas the APES was to create exclusive export zones of excellence of apparel manufacturing, the TCIDS was to modernize and fill in the gaps in the existing infrastructure at the existing major textile centers so as to remove the impediments to production. Both the schemes were designed to make the Indian textile industry globally competitive.

18.22 After reviewing the progress of implementation of these two schemes and analyzing the loopholes, it was decided to merge these schemes into a new scheme. Accordingly, the 'Scheme for Integrated Textile Parks (SITP)' was approved in July, 2005 to provide the industry with world-class infrastructure facilities for setting up their textile units. No new project was sanctioned under the erstwhile APES / TCIDS thereafter. It was also decided to continue the Government assistance to the projects sanctioned under these schemes where work had actually started before 31.07.2005.

18.23 The SITP is implemented through Special Purpose Vehicles (SPVs), where Industry Associations / Group of Entrepreneurs are main promoters. The Government of India's (GOI) support by way of Grant or Equity is limited to 40 percent of the project cost subject to a ceiling of Rs.40 crore. However, the combined equity stake of GOI / State Government / State Industrial Development Corporation, if any, should not exceed 49 percent so that the SPVs shall have operational autonomy and do not become surrogate Public Sector Enterprises.

18.24 Under the SITP, 26 projects have been approved by the Ministry of Textiles. These Parks would have facilities for spinning, sizing, texturising, weaving, processing, apparels and embellishments. The estimated project cost (for common infrastructure and common facilities) is Rs.2428.33 crore, of which Government of India assistance under the scheme would be Rs.866 crore. 2219 entrepreneurs will put up their units in these parks covering an area of more than 300 acre. The estimated investment in these parks would be Rs.13445 crore and estimated annual production would be worth Rs.19200 crore. Estimated employment generation would be around 5 lakh (direct / indirect). These 26 parks are expected to be developed by March 2008.

18.25 Under the TCIDS, eighteen (18) projects have been sanctioned with a total project cost of Rs.500.09 crore including Government of India assistance of Rs.271.67 crore. Under the APES, twelve (12) Apparel Park projects have been sanctioned, with a total project cost of Rs.433.60 crore including Government of India assistance of Rs.191.70 crore.

18.26 From 2006-07, the ongoing projects sanctioned under the APES and TCIDS are being funded out of the unified budget provision for SITP (including APES / TCIDS). Therefore, apart from the provision for new projects under the SITP, provision will have to be made for the committed expenditure on the sanctioned projects under the SITP / APES / TCIDS. Details of the committed requirement are as under:

(Rs. crore)

1	**Sanctioned Projects**	**APES**	**TCIDS**	**SITP**	**Total**
2	**Project Cost**	191.70	271.67	890.28 #	1353.65
3	**Less** actual expenditure upto 2005-06	71.56	59.99	27.68	159.23
4	**Less** Provision in 2006-07	Provided under a single Head of Account			189.00
5	**Balance** (2-3-4) (To be provided in the Eleventh Plan)	Combined provision			**1005.42**

#- Includes the professional fee to be paid to the Project Management Consultant.

18.27 There has been an overwhelming response to the Scheme from the State Governments, entrepreneurs and various industry associations, which is evident from the fact that within a time period of 9 months of launch of the Scheme, 26 Parks have been approved after completing the preliminary requirements like formation of SPVs, land arrangement, preparation / appraisal of project reports etc. In addition, there are consistent requests from State Governments, industry groups and entrepreneurs for continuation of the scheme during the Eleventh Five Year Plan. Ensured entrepreneurs' initiatives, guided by a professionally managed Project management, give an advantage for success of the scheme. As the projects have been approved recently and are expected to be completed by March 2008, it is in infancy to carryout impact assessment. Therefore, the Infrastructure Leasing & Financial Services (IL&FS) was asked to submit an objective assessment report on implementation of the scheme.

18.28 Textile industry has been recognized as one of the thrust areas for growth during Eleventh Plan due to its potential to significantly increase investment, industrial production, employment generation and export. According to industry estimates, the textile industry has the potential to reach a size of US$ 85 billion by 2010, which is estimated to be US$ 47 billion at current prices. Textile exports are expected to reach US$ 40 billion by 2010, a global share of 6 percent. About 60 percent of the exports would be garments. However, to achieve the potential size, investment of the order of Rs.1, 40,000 crore (US$ 31 billion) would be required across various segments for modernization and capacity expansion. It is noteworthy that this is much more than the current capital employed in the industry. In the post quota regime, the Indian textile industry is poised for exponential growth on account of rising consumption, retail credit facilities and the penetration of the brand India image in more than 100 countries of the world. Therefore, taking into consideration the progress of implementation and response of the entrepreneurs, the scheme may be continued in the Eleventh Five Year Plan, as detailed below:

Increase in number of Parks

18.28.1 SITP may be continued in the Eleventh Five Year Plan to cover additional 50 textile parks. This would require an additional outlay of Rs.2000 crore, which may be provided in the first three years of the Plan period. Going by the present trend, development of these 50 textile parks would facilitate additional investment of Rs.25000 crore and 10 lakh employment generation.

Modifications in the Scheme

18.28.2 **Special Category States** – To encourage development of parks in North-Eastern States and Jammu & Kashmir, the Scheme may incorporate following modifications:

- Atleast 2 parks to be earmarked for North Easter States and 2 parks for Jammu & Kashmir.
- Government of India (GOI) grant may be increased to 70 percent of the project cost as against 40 percent grant. The upper limit may, however, continue to be Rs.40 crore. This special dispensation is needed considering the limited ability of the local industry in contributing to the project cost.

18.28.3 **Special emphasis on Handloom and Handicraft Parks** – It has been seen that the projects for handicrafts and handlooms are not viable unless the assistance is increased from the present level of 40 percent of the project cost. To encourage development of such parks and improve their viability, it is proposed that Government of India support may be increased to 60 percent of the project cost for Handloom and Handicraft Praks as against 40 percent grant for other Textile Parks under the existing scheme. The upper limit may however continue to be Rs.40 crore.

18.28.4 **Capacity Building Assistance**

- It has been observed that the SME predominant textile industry, particularly powerloom, handloom and handicraft sectors, have weak entrepreneurial base and, therefore, SPVs of these Parks would not be able to invest on Business

Development Services (BDS) such as skill development, certification, standardization, brand building and market linkages which are essential for sustaining a park of this nature.

- Therefore, the expenditure incurred by the SPVs in such capacity building initiatives, may also be treated as an additional eligible cost component, to the extent of 5 percent of the project cost without increasing the upper limit of GOI grant of Rs.40 crore.

18.29 In view of the above, an outlay of Rs.3000 crore (Rs.1000 crore for ongoing sanctioned projects and Rs.2000 crore for new projects) may be provided in the Eleventh Five Year Plan for implementation of the SITP.

18.30 The Scheme wise details of the proposed outlay during the Eleventh Plan is given in Chapter 19.

A Comprehensive Database for Textiles

18.31 The absence of a comprehensive and proper database for the textiles sector as a whole has created difficulties in monitoring investment, development and growth and in making effective mid-course corrections in strategies and programmes. The gap is strongly felt in the data relating to the decentralised sectors, especially processing, garments and made-ups. The creation of a comprehensive database for the textiles sector, covering the entire value chain right upto marketing of Readymade Garments (RMG) and made-ups, with a view to monitoring the investment, development and growth of the sector, and import-export is being proposed in the Eleventh Plan. Accordingly, the existing database of the textiles sector will be streamlined and strengthened through appropriate primary and secondary sources. The databases of Industry Associations will be used by the Ministry, wherever feasible and necessary.

Secretariat Economic Services

18.32 The present scheme on Secretariat Economic Services will be focused to build up a comprehensive database on textiles in the office of the Textiles Commissioner and the Ministry of Textiles through primary and secondary sources of data. The scheme will also be used to create a strong information base for all the field offices of the Ministry to enable them to implement schemes better, and monitor growth and investments in the sector. For this purpose, the modernisation of the offices, strengthening of IT related services, databases, etc., will be taken up. An outlay of Rs.5 crore is proposed for the purpose during the Eleventh Plan.

18.33 The scheme wise details of the proposed outlay during the Eleventh Plan are given in Chapter-19.