# CHAPTER - 4

# ORGANISED MILL INDUSTRY

## INTRODUCTION

4.1 The cotton / man-made fibres textiles mill industry is the oldest industry in the country. Its size has been declining for several years, before a recovery started during the Tenth Plan Period. This recovery was driven mainly by corrections and initiatives in Government's policy inputs such as economic liberalization and deregulation, fiscal reforms, and innovative schemes like the Technology Mission on Cotton and the Technology Upgradation Fund Scheme. These measures helped immensely in attracting investments for increasing capacities and upgrading technology across the value chain.

4.2 Though the overall increase in the total number of mills and installed capacity during the Tenth Plan period in the organized industry was moderate, modernization increased capacities considerably, and this is reflected in production figures as well as quality during the latter part of the Plan period. With favourable market conditions, triggered by increasing disposable incomes arising from the robust growth of the domestic economy, a record increase in domestic cotton production, and the removal of quotas in the international markets, significant increase in investments and production capacities is feasible in the Eleventh Plan Period.

## PERFORMANCE DURING THE TENTH PLAN PERIOD

### Spinning

4.3 The textiles industry has witnessed significant growth during the last 5 years in terms of installed spindleage, yarn production and exports. However, the total number of cotton/man-made fibre mills declined from 1860 in March 2002 to 1823 in August 2006. Since 165 mills were liquidated / permanently closed during this period, this means 128 new mills were added during Eleventh Plan. Almost all were spinning units. In addition to the spinning & composite mills in the organized sector, a large number of small scale spinning units came up in the eighties, especially in the state of Tamil Nadu. The number of SSI units has increased from 1046 in March 2002 to 1250 in August 2006.

4.4 The overall spindleage during the Tenth Plan period increased marginally from 38.33 million spindles in March 2002 to 39.27 million spindles in August 2006. However, excluding permanently closed mills, the total incremental spindleage during the Tenth Plan was 6.09 million spindles. There has been continuous growth in the capacity of open end rotors. The number of open end rotors increased from 4.80 lakh rotors in March 2002 to 5.90 lakh rotors in August 2006. Excluding those in the permanently closed mills, the incremental open-end rotors capacity installed during the Tenth Plan works out to 1.71 lakh rotors.

4.5 The primary product of the textiles industry is spun yarn, which is almost entirely manufactured by the organized sector. The SSI sector accounts for about 10 percent of the spun yarn production. Spun yarn is the raw material for the composite / weaving mills and for the decentralized handlooms, powerlooms and hosiery sectors. The production of cotton yarn has shown a fluctuating trend during the first four years of the Tenth Five Year Plan. Production which was 2212 million kg. during the year 2001-02 declined to 2177 million kg. during 2002-03. This further declined to 2121 million kg. in 2003-04, and then increased to 2272 million kg. in 2004-05. It exhibited significant increase in 2005-06 by reaching the figure of 2521 million kg. The export of cotton yarn has gradually increased from 438 million kg. in 2001-02 to 448 million kg. in 2004-05

4.6 Apart from cotton yarn, blended yarn, and 100 percent non-cotton spun yarn are also produced by the spinning sector. During the Tenth Five Year Plan, the production of 100 percent non-cotton yarn increased gradually from 280.15 million kg. in 2001-02 to 348.43 million kg. in 2005-06. Blended yarn has, however, declined marginally from 609 million kg. to 588.13 million kg. during the corresponding period.

4.7 Technology wise, the Indian spinning industry has been able to keep pace with international technological trends to a fair degree through its own efforts, and by taking advantage of the concessional loans under the Technology Upgradation Fund Scheme (TUFS). In fact, the spinning segment has taken the maximum advantage of TUFS. As on 31-7-2006, projects, worth Rs. 13,178 crore stood sanctioned under TUFS in the spinning sector, and Rs.10,908 crore in the composite sector. However, to maintain our core competence in spinning segment and convert it into the competitive edge in the globalised scenario, it is necessary that the modernization and technological upgradation process should continue through expansion of capacity and the replacement of the old / outdated spindles. Reportedly, the replacement of spindles is required within ten years of the installation in order to maintain optimum production.

4.8 China, which had around 40 million spindles during the year 1997, has increased the spinning capacity to around 80 million spindles with machines of the latest technology, engaging 36 employees per 10000 spindles per day as against a minimum 100 employees per 10000 spindles per day in India. Some mills in China have even 5 million spindles under one roof, against average capacity of 10,000 – 15,000 spindles per mill in India. Our largest spinners have a capacity of only around five lakh spindles, that too at different locations due to rigid labour laws. The spinning sector has to make heavy investments during the Eleventh Plan to add modern machines for compact spinning, air vortex spinning, rotor spinning, ring frames with automatic doffers, modern preparatory and post spinning machines. This will improve value addition at the yarn stage but utilize human skills properly and ensure employment generation in the allied sectors of agriculture, weaving, knitting, processing and garmenting.

**Weaving**

4.9 In the organized sector, weaving is concentrated in the composite mills and exclusive weaving units. Weaving capacity has declined from 1.40 lakh looms in March 2002 to 0.91 lakh in August 2006. However, excluding those liquidated / permanently closed during this period, the incremental loomage in mills run in the organized sector, during the Tenth Five Year Plan, was 6523 looms, comprising of 1383 shuttle looms and 5140 number of shuttleless looms. It shows that the mill sector is increasingly installing shuttleless looms, and this trend is expected to continue during the Eleventh Plan also. The organized weaving sector has also availed of TUFS. Project worth Rs.5,038 crore were sanctioned under TUFS till 31.07.2006.

4.10 The production of cloth by the mill sector has shown a fluctuating but increasing trend during the latter part of the Tenth Plan. It declined from 1546 million sq. mtrs in 2001-02 to 1496 million sq. mtrs. during 2002-03. It further declined to 1434 million sq. mtrs in 2003-04, but increased to 1526 million sq. mtrs in

2004-05, and to 1576 million sq. mtr in 2005-06. It is expected that during the Eleventh Five Year Plan, the mill sector will increase its share in cloth production from the existing 3 percent to 5 percent on account of its strengths of an integrated production structure.

## APPROACH TO THE ELEVENTH PLAN

4.11 In the globalised scenario, large scale integrated textile units have a distinct advantage and to fully exploit global opportunities. Efforts will be made to restore the organized mill industry to its position of pre-eminence to meet the international demand for high value, large volume products at internationally competitive cost and quality levels. For this purpose, measures will be taken to encourage the integration of production efforts on technology driven lines, strategic alliances with international textile majors, and the setting up of large integrated textile complexes.

## PROJECTIONS FOR THE ELEVENTH PLAN

4.12 The projections for the production of spun yarn and cloth by the organized sector have been discussed in Chapter - 2.

4.13 The incremental yarn production during the Eleventh Plan period is projected at 2836 million kg. The incremental spindles for producing 2836 million kg. of yarn are estimated at 21 million spindles. (Considering the production of 135 kg. per spindle per year and the number of working days in a working year as 300). CITI has also estimated that 8.25 million spindles would need to be replaced during the Eleventh Five Year Plan. Therefore, the total requirement of spindles during the Eleventh Five Year Plan would be 29.25 million spindles during five years. The requirement per year would be in the range of 5.85 million spindles. The total investment required would be Rs. 50250 crore (21 million spindles at the rate of Rs. 20,000 per spindle and 8.25 million spindle at the rate of Rs. 10,000 per spindle).

4.14 The incremental fabric production by the mill sector during the Eleventh Five Year Plan is projected at 3,000 million sq. mtrs. It is expected that mill sector would be installing only shuttleless looms. Assuming a production of 1.5 lakh sq. mtrs. production, per year per loom (503 sq. mtr. per day and 300 working days in a year), 20,000 shuttleless looms will have to be installed by the mill sector, at a cost of Rs.

5,000 crore (assuming the average cost of one loom at Rs. 25 lakh including preparatory and other expenses).

## RECOMMENDATIONS

### Continuation of TUFS in its present form

4.15 TUFS has been the single most important factor which has contributed to the revival of the organized mill sector, and placed it on a path of rapid growth. To meet the targets of the Eleventh Plan, it is necessary to continue the TUFS during the Eleventh Five Year Plan. TUFS has been discussed in detail in Chapter-18 (Fund Requirement and Financing Arrangements).

### Fiscal duty concessions

***Customs duty***

4.16 Machinery is a critical input for the textiles industry. A total of 387 machines are already listed at 5 percent duty, however, there are still large number of items of important and critical textiles machinery which attract Customs duty of 10 percent. There is a good momentum in the investment to build up new capacities and modernization. This momentum can be strengthened & improved if import duties on these items of textiles machinery are reduced. Import duty should be reduced from 10 percent to 5 percent on all new machines, and to 10 percent on second hand machines.

***Excise duty***

4.17 Currently, the rate of excise duty on textiles machinery is quite high, at 16 percent. With the addition of sales tax and octroi duty, the cumulative incidence of duties works out in excess of 25 percent. This acts as a disincentive to large investment for modernization and expansion of capacity. To motivate larger investments by textiles units, the excise duty rate on textiles machinery should be scaled down from 16 to 8 percent. This measure will help textiles units in bringing down their cost of investment, and indigenous textiles machinery manufacturers to expand their capacities.

### Handloom Reservation Act 1985

4.18 Handloom Reservation Order issued under Handloom Reservation Act 1985, reserves 11 items for production exclusively by the handlooms industry. However, there is no restriction on the import of these products. Thus, powerloom units and mills in India are restricted from producing these items, whereas powerlooms units or mills of other countries can produce and export these items to India taking advantage of the current reduced customs duty and duty concessions under Preferential Trading Arrangements (PTAs). Therefore, the Handloom Reservation Order may be reviewed with a view to redefine reserved items more scientifically and precisely to avoid misinterpretation at the operating level, and to exempt such items in which powerlooms and mills have a distinct potential and competitiveness in the international market for export production.

## Hank Yarn Obligation Scheme

4.19 The National Textile Policy, 2000 envisaged that the Hank Yarn Obligation should be reviewed from time to time while ensuring the supply of adequate quantities of yarn to the handlooms industry. The Working Group, therefore, recommends that the Hank Yarn Obligation Scheme may be reviewed, and the possibility of evolving an alternate mechanism to ensure the supply of adequate quantities of yarn to the handloom sector may be considered.

## Abolition of Textiles Committee Cess

4.20 Production units in the entire textiles and clothing industry, including the textiles machinery manufacturing industry are required to pay a Textiles Committee Cess at the rate of 0.5 percent of the value of their annual production. This Cess, levied under the Textiles Committee Act 1963, is meant to finance the Textiles Committee. However, the Cess collected for over three decades now, has been far in excess of the funds required for running Textile Committee. In fact, if the excess amount collected so far is converted into a corpus fund for the Textiles Committee, the income from interest will be sufficient to run it. The Textiles Committee Cess needs to be abolished.

## Flexibility in Labour Law

4.21 Rigid labour laws discourage the setting up of large scale units on the lines of China, and encourage the fragmentation of units. Therefore, these laws need to be made flexible. This issue is discussed in detail in Chapter – 14 (Exports).

## Brand Promotion

4.22 To increase value addition, the branding of textiles products is a pre-requisite. A scheme for brand promotion is discussed n detail in Chapter –14 (Exports).