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Textile mills in a TUF spot as ministry surrenders funds

Banikinkar Pattanayak
New Delhi, May 29

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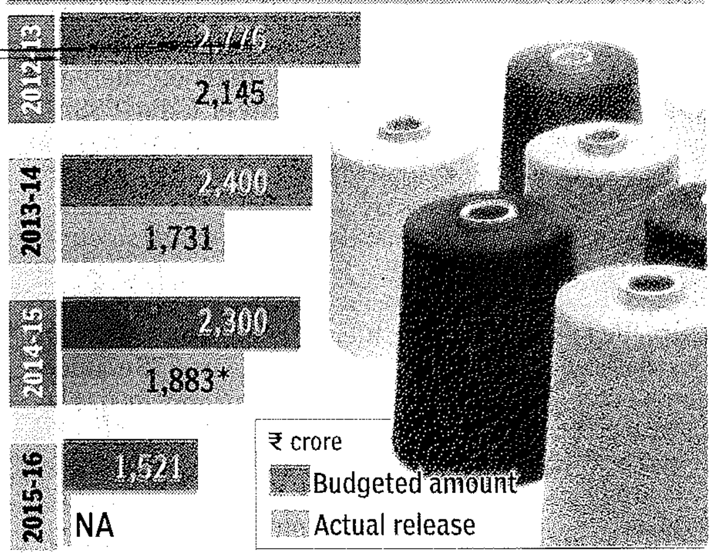

*Provisional Source: Standing committee report

SUBSIDY claims of around ₹4,500 crore by mills may be pending with the textile ministry for investments made under the Technology Upgradation Fund Scheme (TUFS), but the ministry has in recent years been surrendering funds meant for paying the same under the scheme.

Although the ministry has improved its overall spending in the past one year, the huge delay in processing subsidy claims has dealt a blow to the textile industry, already crippled by a cash crunch, huge debts and poor export demand (*see table*). Consequently, investments in the sector have been stopped in the current fiscal, said Prem Malik, chairman of Confederation of Indian Textile Industry. Malik has written a letter to PM Narendra Modi seeking his intervention for an early disbursement of TUFS benefits, which have been "delayed and denied to hundreds of eligible investors in recent years".

Under TUFS, the government supports modernisation of the textile industry by providing interest subvention of 2-6% on loans and upfront capital subsidy of 10-16% for units other than spinning ones.

Mills have been awaiting the release of subsidies worth ₹3,000 crore for more than three years now against investments made during the so-called blackout period (June 20, 2010 to April 27, 2011) as well as errors in reporting of the dole-out amount by banks to the textile commissioner, while claims worth ₹1,500 crore are yet to be cleared for investments made during the last fiscal, according to industry estimates.

The blackout period refers to the time when the government had halted subsidy payment temporarily, seeking to change the contours of TUFS from an open-ended scheme to a closed-ended one, and announced the introduction of the revised scheme only from April 2011.

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The government mainly provides interest subsidy against loans to textile units, capital subsidy and a limited cushion against exchange rate fluctuation for investing in new technology.

"The cases pending for a government decision for close to three years now — left-out cases and blackout cases — need to be sorted out expeditiously and funding for the scheme needs to be increased immediately by providing an additional Rs 5,000 crore for covering the pending cases and new investments required during the next two years," Malik said in the letter to Modi.

Some of the mill representatives FE spoke to said their claims against investments made even before June last year are yet to be processed, while no decision has yet been taken by the government on the subsidy disbursement for investments during the blackout period. They didn't wish to be named.

Commenting on the subsidy disbursement, textile secretary Sanjay Kumar Panda told FE: "We have processed some claims this week and will expedite the process. There is a problem of a crunch in fund allocation this year. We have taken up the issue with the finance ministry." The finance ministry has allocated Rs 1,521 crore for subsidy payment under TUFS for the current fiscal, down from the Budget allocation of Rs 2,300 crore a year earlier.

Curiously, the textile ministry was recently pulled up by a parliamentary standing committee for its inability to spend the allocated amounts in recent years, although it admitted that the ministry had improved its expenditure in 2014-15. Against the approved outlay of Rs 25,931 crore for the whole of the current Plan period (2012-17), the cumulative expenditure from 2012-13 through 2014-15 was just Rs 10,109.41 crore, or just 39% of the outlay, according to the committee, headed by Virendra Kumar, a BJP MP from Madhya Pradesh. Importantly, the expenditure in the first three years of the current Plan period is only 25% of the outlay of Rs 40,203.19 crore the textile ministry had demanded for itself for the entire Plan period.

TUFS was introduced in 1999 to make available funds to the textile industry for upgrading technology at existing units as well as to set up new units with state-of-the-art facilities so that their viability and competitiveness in the domestic and international markets are enhanced. Since its inception, the scheme has attracted investments of more than Rs 2,71,480.30 crore until March 31, according to the official estimate.

After a 33% spurt in the last fiscal, India's cotton yarn export registration started tumbling below the 100-million-kg mark from April 2014, as Chinese demand faltered. Since the capital-intensive spinning segment accounts for the bulk of the investments under TUFS, the non-payment of subsidy amount for earlier investments is taking a toll on the balance sheets of spinning mills.