CHAPTER – 4

PROGRAMME OF ACTION FOR MODERNIZATION

4.1. Programme of Action for Modernization:

The National Textile Policy-2000 (NTxP-2000), recognising the criticality of the weaving sector to the entire textile industry and its export thrust, gives emphasis to the adoption of appropriate technology in the decentralised sector, and envisages action for its rapid modernisation. **The Textile Package**, announced in the Budget for 2001-02, included a major programme for modernization of the power loom sector by the induction of 50,000 shuttle-less looms and 2.5 lakh semi-/automatic looms in the decentralised power loom sector. Moreover, the "Vision 2010" aims at setting-up of additional 90,000 shuttle-less looms in the country.

The decentralized sector requires special effort at motivation and encouragement to avail of technology. Lack of awareness of programmes, lack of confidence in approaching lending agencies, diffidence borne out of unfamiliarity with rules and paper work, shortage of margin money, insufficiency of collateral securities, working capital constraints, and lack of technical skills are among the reasons identified from their continued obsolescence. The strategy for implementation would need to address these issues, primarily by creating awareness, providing encouragement, and facilitating the weavers to select the appropriate technology and approach the lending agencies for credit. Conditions would be created for the smooth functioning of the modernized units, by tackling problems associated with utilization of capacities, enabling product development and export marketing.

4.2. Institutional finance for modernisation in Powerloom sector.

The credit flow is conceived to be a major vehicle for the modernization programme in the decentralized textile sector and its adequate availability continues to be a matter of concern. The credit flow can be classified into long-term credit and short-term credit. Long term credit is a credit i.e., provided for creation of fixed assets viz., Land & building, Plant & Machinery, furniture etc. The credit provided for meeting day-to-day expenses like raw material, salaries, wages, etc. is called short-term credit or working capital loan.

(i) Sources of finance;

The financial assistance for decentralized textile sector in India is available from various Institutions such as SIDBI, State Financial Corporation, NABARD, Commercial/Cooperative banks, NCDC etc. Generally, long-term and medium term loans are provided by SIDBI, State Financial Corporations, and Commercial/Cooperative Banks etc. These term loans are secured against mortgage of fixed assets.

The working capital loans are generally, available from commercial banks to meet day-to-day working capital requirements. The working capital loans are generally secured against pledging of stocks, raw materials, goods, advances against work-in-process and advances against bills etc.

(ii) Finance for Modernisation / Technology Upgradation:

Generally, the decentralized textile sector can avail finance from the State Financial Corporation, Commercial/Cooperative Banks, SIDBI etc. under the general schemes to create fixed assets and to meet its working capital requirements. If the unit proposes to go for TUFS bench marked technology, it can avail loan under TUFS. The salient features of TUFS are as under: -

(iii) Technology Upgradation Fund Scheme (TUFS):

- **Objective:**

  To provide term-loan assistance at competitive interest rates to the textile industry.

- **Duration of the scheme:**

  The scheme is in operation since 01.04.1999 and will continue up to 31.03.2007. Loans sanctioned by the lending agency till the last date of the duration of the scheme will be eligible under the scheme.

- **Benefit;**

  5% Interest reimbursement:

  The scheme provides reimbursement of 5 percent on the interest charged by the lending agency to a TUF compatible project.

  OR

  5% exchange fluctuation (interest repayment from the base rate of Foreign currency loan)

  OR

15% Credit Linked Capital Subsidy for SSI sector:

OR

<u>20% Credit Linked Capital Subsidy for Powerloom Sector</u>

Options have been provided to SSI units under TUFS to avail of either 5% interest reimbursement or 15% or 20% upfront Credit Linked Capital Subsidy. The entrepreneur has to give this option to the lending agency while submitting his application for loan under TUFS. The upfront capital subsidy will be worked out on the eligible investment amount under TUFS and would be released to beneficiary unit on pro rata basis along with disbursement of loan sanctioned for the project. For details of the scheme the beneficiary should refer to the guidelines issued on the subject by Textile Commissioner.

- **Eligible Institutions**:

  SIDBI is the nodal agency for operating the TUFS for the small scale sector. To widen the reach of the TUFS, SIDBI has co-opted 81 scheduled Commercial banks. 15 Cooperative banks, 46 SFCs / SIDCs / Twin function Industrial Development Corporations and 3 other financial corporations viz., NCDC, NSIC Ltd. and Exim Bank. An entrepreneur desirous of availing of loan under TUFS can approach SIDBI or any of the co-opted PLI for assistance under TUFS for projects meeting the technology and financial norms of TUFS. 13 additional Banks have been appointed now as nodal banks for operating TUFS. They are;

Table 4.1.

1)	State Bank of India	2)	Bank of India
3)	EXIM Bank	4)	Central Bank of India
5)	Punjab National Bank	6)	Andhra Bank
7)	Union Bank of India	8)	Indian Overseas Bank
9)	Bank of Baroda	10)	ICICI Bank
11)	Canara Bank	12)	National Co-operative Development Corporation (NCDC)
13)	Indian Bank		

- **Technology Norms:**

The eligible machinery for different segments covered under TUFS are listed in the Government Resolutions (GR) on TUFS dated 31.3.1999. Besides the new Machinery, second hand imported Airjet, Projectile, Waterjet or Rapier Shuttle-less Eligibility of any other textile machinery equal to or higher than the benchmark technology not listed in the GR on

TUFS or developed in the course of the operation of TUFS can be determined by the Technical-Advisory-cum-Monitoring Committee (TAMC). An entrepreneur can represent to the Textile Commissioner who is the Chairman of the TAMC to cover such machinery under TUFS.

- **Financial Norms of SIDBI:**

  Financial norms of earning continuous profit:

  Nodal Agency have relaxed the norms regarding earning of continuous profit during last 3 years for the unit with a good track record, viable and positive net worth even if they had incurred losses in one or more of these 3 years.

  Promoters contribution**:**

  Minimum 20% of the cost of the project for rupee term loans.

  Debit equity ratio (DER)

  DER not to exceed 2:1 for the company / firm / concern as a whole.

  Amount of loan:

  Amount of loan is need base and there is no minimum or maximum limit.

  Repayment period**:**

  Maximum of 10 years including moratorium period of 2 years.

- **Rate of interest:**

  As per commercial lending rates of SIDBI and its co-opted financial institutions. The entrepreneur will be charged the normal rate of interest by the bank for projects covered under TUFS and subsequently 5 percent interest will be reimbursed through the concerned Bank.

  For further **details** on TUFS, the Website: www.txcindia.com or http://www.texmin.nic.in may be visited or the printed booklets and circulars issued by the office of the Textile Commissioner may be consulted.

(iv) SOFT LOAN FACILITY UNDER NEFS:

As per the terms and conditions of the Financial Institutions, the Debt Equity ratio of the projects should be 65:35 or 1.857:1 in general. In case the promoter does not have sufficient equity to bring in his contribution, he may avail equity assistance to finance his project by availing loan under National Equity Fund Scheme (NEF).

National Equity Fund Scheme:

- **Objectives:**

To provide equity type assistance in the form of soft loan to meet the gap in equity as per debt equity norm of the project.

♦ **Eligible Institution:**

SFCs, Twin function Industrial Development Corporation, Scheduled Commercial Banks and select urban and State Cooperative banks. An entrepreneur desirous of availing of NEF assistance can approach any of the eligible institutions.

♦ **Main features of the Scheme:**

a. <u>Project cost:</u>

Project cost including margin money for working capital should not exceed Rs. 50 lakh.

b. <u>Amount of Assistance:</u>

Need based subject to a maximum of 25 percent of project cost or Rs. 10 Lakh per project which ever is higher.

c. <u>Interest:</u>

No interest is charged on the soft loan component except sevice charge of 5 percent per annum to be retained by the eligible PLIs.

d. <u>Repayment period:</u>

Co-terminus with the repayment period of normal term loan of the project.

e. <u>Security:</u>

No security (including co-lateral) necessary for the soft loan.

f. <u>Promoters Contribution:</u>

Minimum 10 percent of project cost.

g. <u>Debt equity ratio:</u>

65:35 or 1.857:1.

♦ **Linkage with TUFS:**

Projects covered under TUFS can also avail of equity type assistance under NEF. For taking the benefit under the same, the entrepreneur has to indicate the same in its TUF project proposal and ensure that bank is co-opted by SIDBI under TUFS and is eligible to finance under NEF.

(v) Composite loan on single window basis:

As mentioned earlier, the term loans are being given by SIDBI, SFCs, Commercial/Co-operative banks etc., and working capital are being given by the Commercial banks. Before sanctioning the term loan, the lending agencies insist the unit to make adequate arrangements with their bankers permitting working capital requirements at reasonable rate of interest. Normally, small scale/tiny textile units are unable to meet the requirements of the lending agencies and some times the units may not get adequate working capital facilities and land in problems after implementation of the said project. To avoid such situations, and simplify the procedures in getting finance, the Govt. of India had launched a scheme called 'Composite Loan Scheme (CLS) , in which a unit can avail both the long term loans and short term loans from single lending agency on single window basis instead of going to different institutions. The main features of the Composite loan scheme are as under:-

<u>Composite Loan Scheme (CLS):</u>

This scheme has no linkage with TUFS but all the SSI units including SSI textile units are eligible to avail the benefit of the scheme.

- **Objective:**

To provide composite loan i.e. term loan and working capital loan from single financial institution on a single window basis.

- **Eligible Institutions:**

SFCs, TFDCs, Commercial banks, Regional Rural Banks, State Cooperative Banks and Scheduled Urban Cooperative Banks are eligible to operate this scheme. An entrepreneur desirous of availing of composite loan can approach any of the eligible institutions.

- **Main features of the scheme:**

<u>Loan amount:</u>

Not to exceed Rs. 25 lakh. The ceiling of Rs. 25 lakh is for loan amount and not for project cost.

<u>Promoters contribution:</u>

For loans upto 2 lakh - nil ; for loans above Rs. 2 lakh and upto Rs.10 lakh -25%; for loans above Rs.10 lakh and upto Rs. 25 lakh- 33.33%.

<u>Repayment period</u>:

Between 3 years and 10 years with an initial moratorium of 12 or 18 months based on the debt servicing capacity of the borrower.

<u>Security:</u>

For loans upto Rs. 5 lakh - Nil; for loans above Rs. 5 lakh and upto Rs.25 lakh as determined by the PLI based on the merits of each case.

- **Rate of interest:**

Depends on the rate of interest fixed by the SIDBI from time to time on refinance assistance.

(vi) Capital Subsidy:

Under the Technology Upgradation Fund Scheme, the benefit of 5% interest reimbursement will be extended to the unit during the period of loan as specified in the sanction letter. Since the benefit of 5% interest subsidy will be extended during the period of loan after implementation of project and the promoter will not have any benefit / cushion at the time of implementing the project such as upfront investment subsidy etc., the promoters may opt, Credit Linked Capital Subsidy - Technology Upgradation Fund Scheme (CLCS-TUFS) in lieu of TUFS to ease out their financial constraints at the time of implementation of the project. The main features of the Scheme are as under:-

(i) <u>15% Credit Linked Capital Subsidy</u> - Technology Upgradation Fund Scheme (CLCS-TUFS) for SSI sector.

Main features of the Scheme are as under:-

- CLCS-TUFS will be in operation from 1st January, 2002 to 31st March, 2007.
- Technology & other norms of TUFS are equally applicable to CLCS-TUFS cases for determining the eligibility under the scheme.
- Capital subsidy under the CLCS-TUFS shall be available only for such projects where terms loans have been sanctioned by the nodal agencies and its co-opted Primary Lending Institutions (PLIs).
- The 15% capital subsidy will be worked out on the eligible investment amount under TUFS and would be released to the beneficiary unit on pro-rata basis along with the disbursement of loan sanctioned for Technology Upgradation.

(ii) <u>20% Credit Linked Capital subsidy</u> under TUFS for Powerloom units under SSI sector.

An additional option has been provided to powerloom entrepreneurs under small scale sector in lieu of 5% interest reimbursement under TUFS. This scheme is applicable for Powerloom units in SSI sector only. 20% capital subsidy will be released to bench marked machinery manufacturers in case of indigenous benchmarked machinery which includes semi-automatic looms, automatic looms, shuttle-less looms which or without specified loom accessories and specified weaving preparatory machines. Under the scheme machinery manufacturers are benchmarked and the list of such manufacturers is notified by the Textile Commissioner.

In case of imported machines i.e., new looms and 2nd hand shuttle-less looms with 15 years vintage life and 10 years residual life. The 20% subsidy will be released directly to the powerloom entrepreneur through bank. The price of such machinery has been benchmarked by the Textile Commissioner.

Scheme will be in operation upto 31st March 2007. Maximum subsidy amount will be Rs.20 lakhs and disbursed only after installation of weaving machinery.

NBFCs registered with RBIs as category "A" & 'B', all banks including cooperative Banks / SFCs / SIDCs & SIDBI are eligible for funding under the Scheme.

(vii) No Collateral Security/Third Party Guarantee:

It is understood that the decentralized units are facing problems like collateral Security, third party guarantee etc., in getting finance. In order to reduce the burden of bringing collateral security/3rd party guarantee etc., the Govt. of India has launched a scheme called '<u>Credit Guarantee Fund Scheme</u>' for the small and tiny units. However, it is the discretionary power of the lending agency to offer the loan without collateral security despite RBI guidelines stating that it is prerogative of the concerned institution. The salient features of the scheme are as under:-

<u>Credit Guarantee Fund Scheme (CGFS):</u>

- **Objective:**

To provide guarantee in respect of credit facilities to the borrowers in the SSI sector without any co-lateral security and / or third party guarantee.

- **Eligible institutions:**

Credit Guarantee Fund Trust (CGFT) has been set up by Govt. of India and SIDBI. The scheme is confined to guaranteeing of loans extended by member lending institutions. At present 18 scheduled commercial banks, one regional rural bank and two other institutions have become the member of this trust.

- **Guarantee fee:**

One time guarantee fee of 2.5 percent of the credit facilities sanctioned to be paid upfront to the trust by the eligible institutions availing of guarantee.

- **Annual service fee:**

  An annual charge of 1 percent on the outstanding credit facilities as on March'31st of each year will be charged by the CGFT.

- **Cost to the borrower:**

  The lender bank may pass on the incidence of guarantee fee and annual service fee to the borrower. In the normal course on a 5 year credit facility the guarantee fee and service charges payable work out to roughly 1% on an annualized basis.

- **Eligible borrowers:**

  The scheme covers eligible credit facilities extended by member lending institutions in respect of a single eligible borrower not exceeding Rs.25 lakh by way of term loan and or working capital.

- **Maximum risk cover:**

  The trust provides guarantee cover of upto 75 percent of the amount in default of the credit facility extended by the lending institutions to an eligible borrower subject to a maximum limit of Rs.18.75 lakh per borrower.

- **Linkage with TUFS:**

  Entrepreneurs availing of TUFS can also avail of benefit of this scheme, provided lending institution sanctioning the TUFS assistance is also member of lending institutions of CGFTS.