

**REPORT OF THE COMMITTEE TO STUDY
THE PROBLEMS OF SICK / WEAK UNITS
IN LEATHER INDUSTRY AND TO SUGGEST
MEASURES TO OVERCOME THEM**



**RESERVE BANK OF INDIA
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C O N T E N T S

| | PAGE |
|---|------|
| ACKNOWLEDGEMENT | |
| SUMMARY OF THE REPORT | i-xv |
| <u>MAIN REPORT</u> | |
| Chapter 1 INTRODUCTION | 1 |
| Chapter 2 OVERVIEW OF THE LEATHER INDUSTRY | 4 |
| Chapter 3 LOANS AND ADVANCES TO LEATHER INDUSTRY | 20 |
| Chapter 4 SICKNESS IN LEATHER INDUSTRY AND THEIR MAIN CAUSES | 29 |
| Chapter 5 INDUSTRIAL SICKNESS, ITS PREVENTION AND EARLY IDENTIFICATION | 53 |
| Chapter 6 MONITORING OF INDUSTRIAL ADVANCES | 58 |
| Chapter 7 EFFLUENT TREATMENT | 85 |
| Chapter 8 MAJOR ISSUES RELATING TO THE WELL-BEING OF LEATHER INDUSTRY AND REVIVAL OF SICK UNITS | 88 |
| Chapter 9 REHABILITATION FRAME WORK | 97 |
| Chapter 10 MODERNISATION OF LEATHER INDUSTRY | 102 |
| Chapter 11 CONSULTANCY ORGANISATIONS TO BE PROMOTED AND MANAGED BY LEATHER INDUSTRY | 106 |
| Chapter 12 LEATHER DEVELOPMENT FUND | 114 |
| ADDENDA TO THE REPORT | 120 |

... contd

APPENDIX

| | | |
|----------------|--|------|
| Appendix I | RBI NOTIFICATION | A-1 |
| Appendix II | LETTER ADDRESSED TO INDIVIDUAL UNITS | A-5 |
| Appendix IIA | QUESTIONNAIRE TO UNITS OF LEATHER INDUSTRIES | A-6 |
| Appendix IIB | ADDRESSES OF LEATHER UNITS TO WHOM QUESTIONNAIRE HAD BEEN SENT | A-11 |
| Appendix IIC | UNITS THAT HAVE SENT REPLIES TO THE QUESTIONNAIRE | A-23 |
| Appendix III | LETTER ADDRESSED TO BANKS AND FINANCIAL INSTITUTIONS | A-24 |
| Appendix IIIA | DATA TO BE SUPPLIED BY BANKS REGARDING ASSISTED LEATHER UNITS | A-26 |
| Appendix IV | LETTER ADDRESSED TO SECRETARY TO GOVERNMENT, INDUSTRIES DEPARTMENT OF VARIOUS STATES | A-27 |
| Appendix V | LETTER ADDRESSED TO LEATHER TRADE ORGANISATIONS | A-29 |
| Appendix VA | NAMES AND ADDRESSES OF LEATHER TRADE ORGANISATIONS | A-31 |
| Appendix VI | LETTER SENT TO CENTRAL LEATHER RESEARCH INSTITUTE | A-34 |
| Appendix VII | LETTER SENT TO COUNCIL FOR LEATHER EXPORTS (CLE) | A-36 |
| Appendix VIII | LETTER ADDRESSED TO NON-OFFICIAL MEMBERS OF CLE | A-38 |
| Appendix VIIIA | NAMES AND ADDRESSES OF NON-OFFICIAL MEMBERS OF CLE | A-39 |
| Appendix VIIIB | EXTRACTS FROM THE LETTER ADDRESSED TO LEATHER TRADE ORGANISATIONS | A-42 |

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SUMMARY OF THE REPORT

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CHAPTER 1 - INTRODUCTION:

- The RBI Committee on Leather Industry was constituted in December, 1992 to study the problems of Leather Industry, especially of the sick / weak units and to suggest measures : (i) to overcome the problems for the revival of the sick / the weak units; (ii) to make recommendations on the prevention of sickness; and (iii) the sustained growth of the Leather Industry. (Paragraph 1)
- The study does not cover: (a) the units in the unorganized sector; and (b) State Leather Development Corporations. (Paragraph 1.7)

CHAPTER 2 - OVERVIEW OF THE LEATHER INDUSTRY:

- Of the 1083 tanneries (1978-88) in the country, 1008 were in the SSI sector and 75 in the non-SSI sector. The centres where there is concentration of tanneries are located in Tamil Nadu, West Bengal, and Uttar Pradesh. (Paragraph 2.2)
- SSI units formed nearly 80 per cent of the tanneries processing hides or skins (installed capacity). Under-utilisation in installed capacity has been attributed to the escalation in raw material price and their inputs ; shortage of finance, power shortage and market fluctuations. (Paragraph 2.5.1)
- Seasonal variations in processing is one of the special features of tanneries. (Paragraph 2.9)
- The ownership pattern of tanneries reveals that proprietary and partnership form 82 per cent in SSI units and 47 per cent in non-SSI units. (Paragraph 2.10)
- Tamil Nadu with the largest number of tanneries in the country, leads the other states in regard to the manufacturing units of shoe uppers and garments. Uttar Pradesh leads in the number of units of full shoes and West Bengal in the number of units of hand bags and small leather goods. Union Territory Delhi although much smaller in area than the states, has a substantial presence in leather products industry. (Paragraph 2.11)

- Strengths, Weaknesses, Opportunities and Threats SWOT Analysis of Leather Industry in General, in Tannery, Footwear Industry, Garments Industry and Leather Gloves Industry have been given. This is with a view to enable the industry to eschew the weaknesses, take preventive steps where possible to withstand threats and to take advantage of strengths and of opportunities. (Paragraph 2.12 to 2.12.5)
- Export of leather and leather products have shown an impressive growth from Rs. 1,245 crores in 1987-88 to Rs. 3,215 crores in 1991-92. Notwithstanding this, with its share in the world export market at 3.5 per cent only, India has yet to make a significant presence in the international leather market. (Paragraph 2.13.1)
- Our present import policy has been postulated in a manner to remove all road blocks in importing the needed raw materials, chemicals, consumables etc. for the leather industry. (Paragraph 2.15).

CHAPTER 3 - LOANS AND ADVANCES TO LEATHER INDUSTRY:

- Leather industry being one of the traditional industries, banks have been providing credit since long. Despite such long association, many units have become sick. Banks have to either initiate recovery proceedings or revival programmes under RBI guidelines. With the introduction of income recognition and provisioning norms, banks especially are reluctant to commit additional finance for rehabilitation. (Paragraph 3.1.2)
- The present definition of sickness very often makes the assisting institutions to initiate for corrective action, only after the unit satisfies the definition of sickness. When a symptom, even a doubtful one, surfaces, banks should get alerted and examine ameliorative measures which do not involve financial concessions per se. In deserving cases, reliefs like temporary reduction in margin, increasing working capital limits, sanctioning term loans for purchase of generators to stabilize production during power-starved months, or purchase of balancing equipment not involving large investment, can be sanctioned by the bank itself. (Paragraph 3.2.9)
- As at the end of March 1993, there were 8645 units (both SSI and non-SSI) having aggregate bank credit at Rs. 1,042.82 crores in the leather industry. Bank credit to leather industry, both in terms of number and

amount financed, was concentrated in Tamil Nadu, Uttar Pradesh, Delhi, West Bengal and Maharashtra. While Tamil Nadu dominates in total credit provided to leather industry, Uttar Pradesh far outstrips other states in the number of units financed.
(Paragraph 3.2.12 and 3.2.13)

- From the information furnished by the term lending institutions, as on 31st March 1993, there were 787 leather manufacturing units having term loans outstanding at Rs. 175.97 crores. The share of the All-India Financial Institutions is Rs. 132.02 crores or 75 per cent of the total. Tamil Nadu leads the other states in having maximum term loans.
(Paragraph 3.3.1 and 3.3.2)

CHAPTER 4 - SICKNESS IN LEATHER INDUSTRY AND THEIR MAIN CAUSES:

- By adopting measures to control the debilitating practices and keeping a careful and continuous watch on the well-being of a unit, sickness can be prevented. Despite this, if sickness creeps in, early identification and effective curative measures, would ensure that sickness does not lead to fatality.
(Paragraph 4.1.2)
- Causes for sickness attributable directly or indirectly to the entrepreneur comprise mainly the following:-
 - A. Deficiencies in project formulation ;
 - B. Deficiencies in project implementation ;
 - C. Deficiencies in project management ;
 - D. Deficiencies in project operations.

Causes for sickness as perceived by bank, financial institutions, leather associations have been given.
(Paragraph 4.3.1)

- In 803 or 77.1 per cent of 1040 sick units as on 31st March 1993, as reported by banks, information as to cause of sickness was not furnished. This could be probably due to absence of close follow-up after disbursement of loan. Of the remaining 237 units on which banks have given information, 72 (30.4%) are sick due to management shortcomings, 54 (22.8%) due to diversion of funds / wilful defaults and 89 (37.6%) due to marketing problems. No bank has assessed inadequacy of working capital as one of the causes of sickness.
(Paragraph 4.5.2 (ii), 4.5.2 (iii))

- From the information furnished by financial institutions, while no reason for sickness was given for 55 (53%) of the 103 SSI and non-SSI sick units, inadequacy of working capital finance has been listed in 10 out of the 48 cases where causes have been furnished. (Paragraph 4.5.3)
- An analysis by BIFR on causes of sickness in 12 non-SSI leather manufacturing units shows that working capital and management inadequacy is common to all these sick leather industrial units. (Paragraph 4.5.4)
- The All India Chamber of Footwear Exporters has laid emphasis on the entrepreneur's personal involvement to control the unit's operations to ensure its viability. (Paragraph 4.5.5)
- The All India Small Scale Shoe Upper & Shoe Manufacturers Association has listed the main problem as that the exporter not getting payment on time. (Paragraph 4.5.6)
- According to a Consultant firm's report to the All India Skins and Hide Tanners and Merchants' Association, the most critical cause for sickness was delayed / non-realisation of bills due to improper relationship with buyers, quality of end product and non-conforming to product specifications. (Paragraph 4.5.7)
- As on 31st March 1993, total bank credit to sick leather manufacturing units was Rs. 131.31 crores forming 12.6 per cent of aggregate bank credit to leather industry. The proportion of 'sick' advances to total advances was high in West Bengal at 17.8 per cent and low in Delhi at 6.0 per cent. (Paragraph 4.6)
- The average credit per sick unit varies from Rs. 65.80 lakhs in Andhra Pradesh to Rs. 0.73 lakhs only in Delhi. (Paragraph 4.7.2)
- Tamil Nadu has the largest incidence of sickness in leather industry in the country both in respect of number and the amount. Bank credit to sick units in Tamil Nadu at Rs. 67.36 crores forms 51.3 per cent of the total credit to sick leather manufacturing units. (Paragraph 4.7.3)
- As at the end of March 1991, 85 per cent of 41 sick leather units in non-SSI sector were tanneries. Again 95 per cent of the outstanding bank credit to these sick non-SSI leather manufacturing units belonged to tanneries. Sickness is much more prevalent in tanneries than in leather product units. (Paragraph 4.8.4 to 4.8.9)

- Term loans to sick units aggregated Rs. 42.67 crores, of which the share of the All-India Financial Institutions was Rs. 26.47 crores or 62 per cent. (Paragraph 4.9.2)
- The States of Tamil Nadu, Uttar Pradesh and West Bengal have predominant share of both bank credit and terms loans from financial institutions to the leather industry. (Paragraph 4.11.1)
- States which had major share of both bank credit and term loans to sick leather manufacturing units were Tamil Nadu, Uttar Pradesh, West Bengal and Maharashtra. (Paragraph 4.12.3)
- The Committee recognises that while the causes for sickness for any unit could be more than one, these are also interconnected. Except the exogenous factors like riots, sudden changes in Government policy (e.g imports), the onslaught of sickness could be prevented or atleast minimised by taking suitable measures with an integrated approach. These include proper appraisal procedures, adequate and timely lending operations, monitoring and updated technology. (Paragraph 4.14)
- One of the vital points which has not received as much attention as it deserves, is that generation of surplus funds by a sick unit should be large enough to meet both interest charges on the rehabilitation loans, term loan payments and repayment of interest and principal of the past liabilities within a reasonable period. The cost effective manner in which a sick unit under rehabilitation has to work should be more rigorous than a similar non-sick unit. (Paragraph 4.15)
- Complaint against inadequate working capital has been made persistently by the borrowers. There is a tendency for bank officers to be extra cautious in fixing working capital limits. This often leads to inadequacy of working capital putting the assisted unit on the threshold of sickness right from the beginning. (Paragraph 4.16.1)
- Nayak Committee's formula of giving minimum 20% of the turnover as working capital to SSIs should be extended by RBI to non-SSI units also and that within three months of this adhoc sanction, the optimum working capital needs of the unit should be fixed taking into account the manufacturing cycle, trade credit practices and optimum inventory levels. (Paragraph 4.16.2)
- One suggestion which banks could consider is to sanction the working capital for the entire amount that is required for the first year's production as

projected, on the basis of any formula followed by the bank. The bank manager may be authorised to release the working capital progressively upto the sanctioned limit on the basis of actual performance of the unit. This will obviate the need for putting up fresh proposals for enhancement of working capital to his higher-ups and ultimately ensure effective use of funds for productive purposes. (Paragraph 4.16.3)

- Some of the practices which affect the working of a unit, prevalent in a few banks have been enumerated. (Paragraph 4.17)
- Working capital needs should be revised whenever there is change in the raw material / consumables price. (Paragraph 4.17 [i])
- RBI has been requested to devise a reporting system by which attention paid to sick / weak units by the assisting bank could be reviewed at the Board level of the bank and by the RBI. (Paragraph 4.17 [iv])
- There is a lurking fear in the minds of bank officers that when their bonafide efforts to revive a sick unit fail after some time, they may be called to account. This environment where it exists will have to be changed by the bank managements. (Paragraph 4.17 [iv])
- Bank should make a systematic study to find causes for wide variations between assumptions in the project report based on which loan was sanctioned and the actual performance. This will help the bank to make its appraisals to become realistic and to avoid pit-falls. (Paragraph 4.17 [v])
- Continuous, effective monitoring of the unit is necessary. Such monitoring amongst other things will prevent diversion of funds. (Paragraph 4.17 [vi])
- The Committee strongly advises that there should be a cent percent verification of stock of inventory by a leather technologist, before extending assistance to a sick unit and also once in six months in every assisted unit. (Paragraph 4.17 [viii])

CHAPTER 5 - INDUSTRIAL SICKNESS, ITS PREVENTION AND EARLY IDENTIFICATION:

- A unit will be able to service its liabilities only after it reaches break-even point, and any recovery towards loan before the unit reaches break-even point will adversely affect the unit. (Paragraph 5.1).

- To allow for teething trouble and stabilisation of production, there should be an initial holiday for twelve months in regard to instalment payment of term loans. This should be followed by 25 per cent payment of normal instalment of term loan for six months and 50 per cent payment of the normal instalment of the loan for another six months. The earlier dues towards instalments would be collected in another 2 years so that at the commencement of fifth year the unit is on even keel. (Paragraph 5.2)
- Interest on working capital and term loan for the first twelve months should be added to the project cost, so that the unit is protected from infant mortality. (Paragraph 5.3.3)
- If close monitoring reveals that due to unexpected developments, reaching break-even level is delayed, and the unit is still viable, rescheduling of repayments could be allowed by the lending institution after satisfying itself about the viability of the unit. (Paragraph 5.3.4)
- The Committee suggests that when a unit defaults even once in meeting either its statutory dues / or interest to banks/ or institutions / or instalment payment to financial institution, it requires attention, that too quickly. The quicker the assisting bank / institution intervenes in such a situation, greater are the chances of stemming the rot. (Paragraph 5.6)
- A few recommendations in relation to the exports to the erstwhile USSR have been made. They are :-
 - i. extension of the period of normal rate of interest in regard to packing credit from 180 days to 360 days;
 - ii. RBI to grant general permission to authorised dealers to hold the outstanding BRI forms upto 360 days, whereafter specific approval may be granted on the merits of the case. RBI is requested to consider the suggestion in the light of possible repercussions it may have on all exports in general.
 - iii. Banks to be advised to consider converting the advances against inventories built up to meet the expected further exports into a "blocked term loan", at a concessional rate of interest repayable over a period of three years from out of realisations from exports to new areas ;

- iv. To permit import of raw materials from Russia and CIS countries against export of value added leather goods to that region.
- v. Banks to be advised to reschedule the packing credit /post-shipment dues into a term loan at concessional rate of interest. (Paragraphs 5.7.4 to 5.7.6)

CHAPTER 6 - MONITORING OF INDUSTRIAL ADVANCES:

- The assisting bank to safeguard its interest and more as a measure of prudence, should include as a condition of working capital, when the limit exceeds Rs. 50 lakhs, that the bank will have a right to monitor the working of assisted units. (Paragraph 6.2)
- There should be periodical visits to the factory on behalf of the assisting bank and financial institution, in respect of both new units under rehabilitation atleast once a month. (Paragraph 6.3)
- The Committee considers that a leather technologist with a short re-orientation programme could do monitoring of leather manufacturing units more effectively. (Paragraph 6.4)
- The Committee has suggested adoption of certain basic reports (monthly) for the continuous monitoring of the unit. (Paragraphs 6.5 to 6.10)

CHAPTER 7 - EFFLUENT TREATMENT:

- The CLRI report has identified the main bottlenecks in effluent treatment as lack of adequate finance; lack of suitable treatment technologies ; inadequate land availability and disposal of solid sludge. The main bottleneck lack of adequate finance is sought to be solved by this Committee by recommending the setting up of a Leather Development Fund. (Paragraph 7.5)
- Effluent treatment should receive top priority in respect of tanneries, if leather industry were to cash in on the opportunities in the world market. (Paragraph 7.7)

CHAPTER 8 - MAJOR ISSUES RELATING TO THE WELL-BEING OF LEATHER INDUSTRY AND REVIVAL OF SICK UNITS:

- Follow-up action should be taken quickly on the recommendations of Committees set up, lest delays make the hopes raised by the setting up a Committee becoming illusory. (Paragraph 8.1)
- RBI is requested to look into the present mode of collection, collation and maintenance of statistical data by banks relating to their assisted industrial units and to devise a system by which each bank has up-to-date information regarding the status of advances to assisted units. The Committee is of the view that continuous and critical attention to funds in jeopardy by a bank would itself lead to greater awareness of sickness in industry and enable the bank to take timely measures to control sickness. (Paragraph 8.2)
- Rehabilitation / revival of sick units should be entrusted to a cell at the Central Office of each bank. This cell should be very active and should closely monitor the performance of not only the assisted units but also the branch concerned. (Paragraph 8.3).
- Many Indian Industrial units are active in getting ISO:9000 certification - the exception being leather units. (Paragraph 8.4 (i))
- The assisting banks / institutions should take interest in encouraging its assisted units to streamline their quality system and strive for getting ISO:9000 certification. This can be done by stipulating as loan conditions that the unit should secure ISO:9000 accreditation within a specified time frame, say 1 year. (Paragraph 8.4 (ii))
- The Committee suggests certain measures to attain the goal on quality which include the following :-
 - i. Technical Institutes on Leather and Leather Products to introduce a chapter on Quality in their curriculum of courses offered by them ;
 - ii. Increase awareness in, quality / ISO:9000 by introducing six months courses in Engineering Colleges / Polytechnics ;
 - iii. Increase awareness through Media and granting of awards on Quality by the Central Government industry-wise for all India and by the State Government industry-wise for units within their states ;

- iv. A month in a year to be declared on the National Quality Month when seminars, groups discussions etc. The objective is to make industrialists small, medium and large and industrial employees, to realise that "Quality is Growth".
(Paragraph B.4 (iv))
- The Committee has requested RBI to evolve an internal mechanism for quick review of the decisions of the sanctioning authority by bank concerned.
(Paragraph B.5)
 - All officers being posted to a bank in which they have to deal with a number of leather accounts, should be those who have undergone an exposure programme for about 2 weeks, on leather industry. (Paragraph B.6)
 - The Committee has recommended a number of measures to augment the revival of sick units.
(Paragraph B.7 to B.14)
 - Capital Gains Tax on the sale proceeds of capital assets of sick units, should be waived provided the entire sale proceeds are employed in the revival of the unit. (Paragraph B.7)
 - Bank's income from export financing should be exempt from Income-Tax, to act as an incentive to make a bank take an abiding interest in financing exports.
(Paragraph B.8)
 - A unit under rehabilitation should be notified by the State Government concerned as a "Relief Undertaking" under the relevant Relief Undertaking Act of the State Government for an initial period of three years, to stay the legal proceedings against the unit for recovery of dues by private parties.
(Paragraph B.9)
 - The State Government concerned should automatically grant exemption under the Land Ceiling Act for the sale of surplus land by a sick unit, provided the entire sale proceed is employed in its revival.
(Paragraph B.10)
 - State Government should extend to a sick unit under rehabilitation concessions on the same scale and terms as for new units being set up within the respective states. (Paragraph B.11).
 - Punitive action for recovery of statutory dues, to be deferred / stayed, and the sick unit under rehabilitation is allowed to repay its dues in easy instalments, after recommencement of production
(Paragraph B.12)

- There should be monetary rewards to the Manager and all the other employees directly connected with the rehabilitation / revival of a unit relating to the reward to the quantum of reduction in losses effected by the revival / rehabilitation scheme. (Paragraph 8.13)
- RBI to set up a Standing Committee comprising representatives from RBI, Union Ministries of Commerce, Finance and External Affairs and ECGC to deal with major problems faced by exporters in getting their export proceeds from political / economic crisis-ridden countries. (Paragraph 8.14)

CHAPTER 9 - REHABILITATION FRAME WORK:

- The health of a unit coming for rehabilitation / being critical whatever the assistance to be given should be adequate and timely. Now it takes months for getting the particulars regarding principal, interest etc. from the assisting bank. In the meanwhile, the sick units sinks further making the task of rehabilitation almost impossible. The Committee requests RBI to have this position in getting details from the banks rectified. (Paragraph 9.3)
- The Committee has suggested a quick rule of thumb, test of viability of unit. Revival package should be finalised quickly. (Paragraph 9.4)
- The Committee wants it to be recognised that a sick unit cannot be fully activated overnight and it has to be ensured that the unit under revival does not suffer from cash crunch. (Paragraph 9.5)
- The Committee does not consider that any concession need be given on interest rate as a unit under revival should be able to generate sufficient surplus to pay the normal interest. (Paragraph 9.7)
- For some of the categories of funds required for rehabilitation, such as repairs / reconditioning of existing machinery, purchase of new machinery, the Leather Development Fund (suggested in Chapter 12) could assist at an interest rate equivalent to the Bank Rate to be repaid in seven years time. (Paragraph 9.8, 9.9)
- For encouraging foreign collaboration in leather industry, particularly in the case of tanneries, the Committee has made certain suggestions which include importantly, the following :-

- a. A separate private limited company to be formed with the Indian promoter of the sick unit and the foreign collaborator. One of the objectives is to take over the sick unit. Equity capital should not be less than Rs. 100 Lakhs.
 - b. All reliefs suggested earlier should be made available to the sick unit.
 - c. The new company should take the sick unit on lease for a period of three years. (Paragraph 9.16)
- To reduce risk element in the rehabilitation of tanneries, they should be exempted from the present ban on export of semi finished leather for a period of three years. The requirement of working capital will be less and there will be larger generation of surplus. The foreign exchange generated from such export can be employed to import raw hides to meet any shortfall in their availability. The aforesaid suggestion merits acceptance in the larger interest of reviving sick units. (Paragraph 9.17 and 9.18)

CHAPTER 10 - MODERNISATION OF LEATHER INDUSTRY:

- Based on the CLRI's report on "Capacity Utilisation and Scope for Modernisation in Indian Tanning Industry", the Committee has estimated the total funds required for modernisation of the order of Rs. 350 crores. (Paragraph 10.7)

CHAPTER 11 - CONSULTANCY ORGANISATIONS TO BE PROMOTED AND MANAGED BY LEATHER INDUSTRY:

- If the Indian Leather Industry wants to grow and sustain its growth, it could establish organisations which can provide a variety of services as rendered by Shoe and Allied Trades Research Association (SATRA). (Paragraph 11.3)
- The Committee suggests the setting up of such new organisations which will concentrate on shop floor problems from individual units. The Committee visualises the new organisations to act as extension agencies of Central Leather Research Institute (CLRI) for applying the relevant research finding of CLRI in the production of units. (Paragraph 11.6)

- The objectives of the new organisation will include undertaking applied and operational research on problems of particular interest to the leather industry, make available to member units results of research, improvement in quality, reduction in cost and development of new production techniques, render consultancy services to individual units on adhoc problems relating to production planning, production control, upgradation of finished leather, HRD, industrial engineering, quality, effluent treatment, conducting of training programmes for supervisors, executives on matters relating to unit management, conduct training programmes for workmen in local languages, collect and collate data from members and disseminate them to members. (Paragraph 11.9)

- There can be more than one organisation, one at Vellore near the tannery centre in the South, one near Kanpur and a third near Calcutta. Each organisation to be a Society under the Societies Registration Act, with a Managing Committee of 15 members comprising 9 members elected by the member units (Tanneries 3, Full Shoes 1, Shoe Upper 1, Leather Garments 1, Associations / Corporate Bodies 3) and 6 ex-officio members who will be drawn from CLRI, CLE, Directorate of Leather, DC SSI, Government of India, Directorate of Industry of the State Government concerned and SIDBI. Chairman will be elected from the non-official members. The organisation will be given an annual matching grant from the Leather Development Fund (proposed in Chapter 12). (Paragraph 11.11)

- Every industry should concern itself directly with its growth and well being instead of solely depending on Governmental organisations. For establishing these consultancy organisations the initiative will have to come from the leather industry and the needed encouragement and support from all those interested in the well-being and growth of Indian Leather Industry. (Paragraph 11.13)

CHAPTER 12 - LEATHER DEVELOPMENT FUND:

- The Committee would like to lay utmost stress on the cost reduction measures and quality improvement methods. (Paragraph 12.2)

- The Committee is of the view that there is a limitation on the banks to give concessional rates of interest. Concession to the industry will have to come mainly

from outside the banking system. In this background the Committee recommends setting up of a Leather Development Fund (LDF) from the regular annual contributions from Government of India, Reserve Bank of India, and Industrial Development Bank of India. (Paragraph 12.3)

- Contributions to the Fund would be as follows :-

GOI - 2.5 to 5 per cent of the net foreign exchange earned by the leather industry.

RBI - 50 per cent of that of GOI

IDBI - 50 per cent of that of GOI

(Paragraph 12.4)

- The LDF will be deployed to give grants for specific purposes which include :

i. reimbursing banks for the difference in the rate of interest on export finance the bank can afford and the desirable concessional rate of interest ;

ii. annual grants to the consultancy organisations (vide Chapter 11);

iii. grants for specific R/D problems ;

iv. grant of Rs. 10 lakhs to units that have obtained ISO:9000 Standards Certification.

LDF will also be utilised for giving th following loans

i. provision of risk capital on long term basis for units under rehabilitation at interest equivalent to Bank Rate to meet expenses for repairing / reconditioning of existing machinery etc. subject to ceiling per unit at Rs. 1 crore;

ii. for capital expenses with interest at Bank Rate for effluent treatment plants ;

iii. provision for modernisation of units subject to a ceiling of Rs. 5 crores for any single unit with interest at Bank Rate. (Paragraph 12.5)

The Board of Management of LDF could comprise an experienced person in Industrial Management to act as whole-time Chairman, one representative each from RBI, IDBI, Ministries of Commerce, Director, Leather DC, SSI, Representatives from the first three of the banks with the largest lending to leather industry,

Government of Tamil Nadu, Uttar Pradesh and West Bengal, three experienced Leather Technologists, three Leather Associations, CLRI, CLE and two representatives from two of the State Leather Development Corporations. Leather Technologists and the representatives from Leather Associations and representatives from the State Leather Development Corporations should be chosen from regions where there is concentration of leather industry. The Board can meet once in six months to lay down the policy, review status of leather units, plan work for the year, determine budget etc.
(Paragraph 12.6 and 12.7)

- There should be Management Committee, a compact body to sanction loans / grants for specific schemes within the policy framework by the Board. Its composition will be from those on the Board and include its Chairman, representative from RBI, IDBI, CLRI, CLE, Ministry of Commerce, Director, Leather DC, SSI, and one each from one of the banks Leather Technologists, Leather Associations, State Leather Development Corporations. The term of the Leather Technologist, Leather Association, State Leather Development Corporation will be only for one year and in respect of others, during their term as Members of the Management Committee.
(Paragraph 12.8 (i) and 12.8 (ii))
- Any grants from foreign agencies to leather industry should be routed through this Fund.
(Paragraph 12.8 (iii))

MAIN REPORT

CHAPTER - 1

INTRODUCTION

Reserve Bank of India (RBI) by its Notification dt. 03.12.92, has set up a Committee consisting of a Chairman, 15 Members, a Member Secretary and an Officer of the RBI as 'Observer'. The designation of 'Observer' was subsequently changed to 'Resource Person'. The terms of reference of the Committee are :-

- i) To study the problems of Leather Industry, especially sick/weak units.
- ii) To suggest suitable measures which may be taken by Banks/Financial Institutions, State Govts., and Central Govt. and other agencies to overcome these problems.
- iii) To make recommendations for a comprehensive revival/rehabilitation package in respect of sick/weak units in Leather Industry.
- iv) To make recommendations on the prevention of sickness and the sustained growth of the Leather Industry.
- v) To make recommendations on any other related matter as the Committee may consider necessary. "

A copy of the RBI Notification is at the APPENDIX.

1.2

It would be appropriate to set out, at the outset, the background in which this Committee has been set up. A number of units in Leather Industry, particularly tanneries, has become sick and closed. In quite a few cases, banks have moved civil courts for recovery of their dues from the assisted units. Civil litigation by its very nature being very leisurely, takes years to get the judgement at the first level court. Then there is the process of appeal, second appeal, each taking its own time. A determined party can drag on the litigation for years. At the end of the tortuous procedure, when the bank succeeds, obtains the decree and brings the unit to sale, there are few takers for the assets. This is so because, first, some have a sentimental objection to take over a unit which had brought ill-luck and tribulation to the original promoter. A prospective buyer in the apprehension that similar ill-luck may be his lot, is hesitant to buy a sick unit. Only very large industrial houses may not suffer from this kind of sentimental objection. The second reason is that the assets

of the units would have deteriorated so badly over the years, that the assets, other than land, might not be worth anything. Thus, more often litigation ultimately turns out to be an exercise in futility. Most of the cases that have been referred to the Board for Industrial and Financial Reconstruction (BIFR), have not led to revival.

1.3 Instead of allowing the assets to be dormant and eventually becoming valueless, the question arises whether it would be possible to activate the assets of these sick companies, when there is still some life in them. It is in this background that this Committee has been set up by the RBI.

1.4 In the Preamble to its Notification RBI has referred to its exhortations to the Financial Institutions and the commercial banks from time to time to adopt a systematic approach for preventing sickness in industrial units and for expeditious rehabilitation of the units which may become sick but are viable. RBI has also in the Notification referred to its detailed guidelines, including reliefs / concessions that could be considered for sick and weak industrial units. The fact that the number of sick units in leather industry has been on the increase shows that the exhortations have not had the desired effect and the implementation of the guidelines has been done in such a manner that it has not had much impact on the revival or rehabilitation of the sick units !

1.5.1. Leather industry with which the Committee is concerned comprises tanneries and leather goods manufacturers like footwear, garments, handbags, saddlery. The importance of tannery in leather industry is that without it, there is no leather industry.

1.5.2 The very survival of tanneries depends upon the effective pollution control measures to abate the adverse effects of the effluents. On the quality and quantity of finished leather from those tanneries at affordable prices, the fates of leather goods industry are closely linked. Thus tannery is the mother industry for the leather goods industry.

1.5.3 Many tanneries having been established at least more than a decade ago, have their machinery in decrepit condition, adversely affecting quality, productivity and production leading to erosion in profits. The position of leather goods industry which is more of recent origin is not as bad as tannery. Tanneries will take the lion's share in modernisation outlay.

1.6 Leather goods industry is akin to a fabrication industry in engineering. The main production processes in a fabrication industry are cutting, welding and assembling. In the leather

goods industry, the main production processes are cutting, stitching, pasting and assembling.

- 1.7 This report does not cover the leather industry in the unorganised sector for the reason that the involvement of the banking sector and the financial institutions in the unorganised sector is only marginal.
- 1.8 The Committee sent separate questionnaires to all the Commercial Banks, all State Financial Corporations, All India Financial Institutions, Central Leather Research Institute (CLRI), Leather Development Corporations established by State Governments, a number of units in Leather Industry, State Governments of Tamil Nadu, West Bengal and Uttar Pradesh, and Individuals associated with the Council For Leather Exports (CLE). Copies of questionnaires / letters sent by the Committee with the names & organisations / individuals addressed are at the APPENDIX.
- 1.9 This report does not cover the state - owned Leather Development Corporations as even the two Corporations who have responded have not given the full particulars asked for.
- 1.10 Collection of data from Commercial Banks/SFCs has been a time consuming process. The response from the Leather Associations and individual units to whom the Committee had addressed has been lukewarm. The Committee's report is, therefore, mostly based on the perception of its members with long and varied experience of the industry.
- 1.11 The Committee has suggested some new approaches by the banking system. Deviation from the beaten track is never welcome and reasons could always be found to resist the changes. The Committee earnestly requests that the changes proposed should be tried on a pilot scale by each bank before deciding to extend or abandon the changes.
- 1.12 The Committee would like to state that the views expressed in this report are not necessarily the views of the organisations to which the members belong.

CHAPTER - 2

OVERVIEW OF THE LEATHER INDUSTRY

GENERAL :-

Leather industry is one of the age-old traditional industries of our country, because of its good raw material base with certain special features as indicated below :

- i. No. of hides and skins : Cow 50 (m), Cow Calf 5 (m), Buffalo 11 (m), Buff Calf 6 (m), Goat 75 (m), Sheep 27 (m). [m=million]
- ii. Speciality Products : Calf Skins, Kid Skins, Red hair sheep skins, which are used in the manufacture of shoes sold in the upper medium and high price market segments.
- iii. Speciality Process : East India vegetable tanning.
- iv. A large tanning industry with a capacity of 62 million hides and 161 million pieces of skins per annum.

2.1 TANNERIES :-

The only source of adequate and reliable information on tanneries is the report on "Capacity Utilisation and Scope for Modernisation in Indian Tanning Industry", published by CLRI, in 1990, based on its study in 1987-88. This study was conducted by a team comprising experts drawn from various disciplines. CLE supported the study and the Industrial Development Bank of India and the State Bank of India funded the study. The data on tanneries has been drawn from this report.

- 2.2 In 1987-88, there were 1,083 tanneries in the country, of which 1008 were in the SSI sector and 75 in the Non-SSI sector. Besides these, there were 9 common facility centres. Tamil Nadu with 577 units or 53.3 % of the total, West Bengal with 233 units (all in Calcutta city) or 21.5 % of the total and U.P with 147 units or 13.6% of the total together account for 88% of the total tanneries in the country. The important centres where there is concentration of tanneries are : Calcutta (W.B) 233, Kanpur including Unnao (U.P) 133, Madras (T.N) 113, Vaniyambadi (T.N) 101, Ranipet (T.N) 94, Ambur (T.N) 74, Dindigul (T.N) 49, Pernambut (T.N) 44, Erode (T.N) 41 and Tiruchirapalli (T.N) 27. The other centres are :- Bangalore (Karnataka) 16, Vellore (T.N.) 15, Melvisharam (T.N) 13, Warrangal

(A.P) 11, Bombay (Mah.) 10, Hyderabad (A.P) 7, Jalandar (Punjab) 6. There may not be any significant changes in the above data since 1967-68.

2.3 Distribution of tanneries in SSI sector and Non-SSI Sector according to the year of establishment is given in the table below :-

TABLE - 1

| Period of Establishment | Percentage to the total | |
|-------------------------|-------------------------|----------------|
| | SSI Sector | Non-SSI Sector |
| Upto 1950 | 13 | 14 |
| 1951-60 | 7 | 9 |
| 1961-72 | 18 | 29 |
| 1973-80 | 25 | 39 |
| 1981-88 | 37 | 9 |

2.4 The number of new units began to peak in the two decades 1961-80, 43 % in the case of SSI and 68% in the case of Non-SSI. During 1981-88 the growth in SSI Sector is much higher than in each of the earlier two decades at 37%, On the other hand there has been a steep dip in the Non-SSI sector at 9 % only. To sum up, it is only in the last four decades i.e., since 1961, that rapid strides have been made in the establishment of tanneries.

2.5.1 Installed Capacity :-

The distribution of installed capacity is as in Table 2.

TABLE - 2

| | In Million Pieces | | |
|--------------|-------------------|--------------|--------|
| | SSI | DGTD | TOTAL |
| Hides | 51.10 (82.4) | 10.95 (17.6) | 62.05 |
| Bovine Skins | 128.14 (79.4) | 33.20 (20.6) | 161.34 |

The figures in the brackets show the percentage share to the total. It would be seen that SSI units form nearly 80% of tanneries processing hides or skins.

The CLRI study attributes the under-utilisation of installed capacity to the following :-

- i. Escalation of raw material price and their inputs.
- ii. Shortage of finance.
- iii. Power shortage.
- iv. Market fluctuation.

2.5.2 Relationship between domestic production of hides and skins and the total quantum processed is given in Table 3.

TABLE - 3

(Million Pieces)

| Sl. No. | Item | Estimated domestic production | Actual stock processed | % of (4) over (3) |
|---------|---------------|-------------------------------|------------------------|-------------------|
| 1 | 2 | 3 | 4 | 5 |
| 1. | Cattle Hides | 23.62 | 20.22 | 85.6 |
| | | 141.62 | 138.10 | 91.5 |
| 2. | Buffalo Hides | 18.00 | 17.88 | 99.3 |
| 3. | Goat Skins | 77.66 | 74.50 | 95.9 |
| | | 1110.44 | 1106.19 | 96.2 |
| 4. | Sheep Skins | 32.78 | 31.69 | 96.7 |

In addition to the domestic production, imported raw hides around 3.0 million pieces and skins around 2.0 million pieces are also being processed. Taking this into account, the availability of processing capacity works out to 44.6 million hides with the actual processing at 85% and 112.4 million skins with the actual processing at 94%. From this it can be inferred that the unorganised sector may account for processing of 15% of total availability of hides and 6% that of skins.

2.5.3 Percentage share of SSI and DGTD sectors in processing of hides and skins in India, 1987-88, is given in Table 4.

TABLE - 4

(Million Pieces)

| Sl. No. | Items Processed | Total Processed | Processed in SSI | Processed in DGTD |
|---------|-----------------|-----------------|------------------|-------------------|
| 1. | Cattle Hides | 20.22 (100) | 16.56 (82) | 3.66 (18) |
| 2. | Buffalo Hides | 17.88 (100) | 14.39 (80) | 3.49 (20) |
| 3. | Goat Skins | 74.50 (100) | 53.81 (72) | 20.69 (28) |
| 4. | Sheep Skins | 31.69 (100) | 28.63 (90) | 3.06 (10) |

(Figures in brackets show the percentage share to the total.)

It will be clear that in all the four items processed, SSI sector dominates, the highest 90% being in sheep skins and the lowest 72% in goat skins.

2.6 This report has brought out the position in regard to Capacity Utilisation as follows :-

TABLE - 5

| Stage of processing | Hides | Bovine Skin |
|---|-------|-------------|
| Conversion of raw into unfinished leather | 49 % | 64 % |
| Raw to finished | 69 % | 67 % |
| Unfinished to finished | 70 % | 70 % |

2.6.1 While considering the conversion of raw into unfinished leather, the following limitations should be borne in mind.

- (a) processing is not continuous;
- (b) installed capacity determination is not scientific. For example, in the case of vegetable tanning units, no machinery is involved but only a number of pits are available.

2.7 The distribution of units according to the stage of processing is as follows :-

TABLE - 6

| Material Processed | Number of Units | |
|--------------------|-----------------|-----------|
| | SSI | Non - SSI |
| Raw to Semi | 224 | 1 |
| Semi to Finished | 164 | 12 |
| Raw to Finished | 444 | 38 |
| Different Stages | 160 | 24 |
| Others | 16 | -- |
| TOTAL | 1,008 | 75 |

Raw to finished is nearly 45%, raw to semi about 21 % and semi to finished 16 %.

2.8 Distribution of tanneries according to the type of raw material processed :-

TABLE - 7

| Raw Material Processed | Number of Units | |
|------------------------|-----------------|-----------|
| | SSI | Non - SSI |
| Calf Skin | 102 | 8 |
| Bovine Skin | 351 | 18 |
| Hides | 326 | 26 |
| Hides and Skins | 229 | 23 |
| TOTAL | 1,008 | 75 |

The number of SSI units processing Bovine Skin is more than hides, whereas the number of Non-SSI units processing hides is more than Bovine Skins.

2.9 Seasonal variations in processing is one of the peculiarities of tanneries. The main reason for such variation is attributed to climatic conditions, deterioration of stock during transport due to extreme heat, fluctuation in raw material supply in the rainy season. Thus climatic conditions play a crucial role in tannery production. Summer brings in, not only shortage in raw material, but also power shortage. Rainy season is another poor season for raw hides and skins. Thus, nearly five months i.e, April to August could be said to be the off season for raw hides and skins, and the seven months from September to March, the busy season.

2.10 The other point which should be of interest is the ownership pattern which is indicated in the following Table.

TABLE - 8

| Ownership Category | Percentage of Units. | |
|--------------------|----------------------|---------|
| | SSI | Non-SSI |
| Family | 6 | 7 |
| Proprietary | 23 | 3 |
| Partnership | 59 | 44 |
| Private Ltd. | 10 | 25 |
| Others | 2 | 21 |

Proprietary and Partnership form 82 % in SSI units and 47% in Non-SSI units. Surprisingly, the percentage of family managed firms is higher at 7 % in Non-SSI on a smaller base than 6 % in SSI, on a larger base.

2.11.1 LEATHER PRODUCTS :-

Complete statistical data of units manufacturing leather goods of various types is just not available. The Committee has used the data given in the 21st Edition "Indian Leather, Leather Goods, Garments and Footwear Guide", published by Leather Publications of India, as it gives the geographical pattern of distribution of the units.

2.11.2 Full Shoes Units :-

Of the 139 units, UP leads with 46, followed by Maharashtra with 37, Tamil Nadu with 37 and Delhi with 19. These four states account for 87% of the total.

2.11.3 Shoe Upper Units :-

Of the 215, Tamil Nadu is number one with 86, followed by UP with 62 and Delhi a distant third with 35, followed by Maharashtra with 22 and West Bengal 10. These five states account for 92.6% of the total.

2.11.4 Garment Units :-

All units which manufacture leather coats, jackets, jerkins, longcoats, maxis, middies, protective clothing, skirts, and waist coats are covered. There are 409 units, distributed as follows :-

| | |
|-------------|-----|
| Tamil Nadu | 193 |
| Delhi | 143 |
| West Bengal | 29 |
| Maharashtra | 27 |
| Karnataka | 17 |

These five states account for 91% of the total, with Tamil Nadu (47%) and Delhi (35%) having dominant shares accounting for 82% of the total.

2.11.5 Hand Bags & Small Leather Goods Units :-

Hand bags include all kinds of hand bags from fashion hand bags to leather cash bags. Small leather goods include a

large variety of items made of leather ranging from leather tie, air-travel luggage, ladies purse, belt, to wrist watch straps.

- Of the 460 units, as many as 176 are located in West Bengal, followed by Tamil Nadu with 105, Maharashtra 93, Delhi 46 and UP 40. These five states account for 95% of the total.
- The total 1209 units manufacturing the entire range of leather products, except harness and saddlery, are distributed as follows: 419 or 34.7% in Tamil Nadu, 243 or 20.1% in Delhi, 219 or 18.1% in West Bengal, 179 or 14.8% in Maharashtra and 149 or 12.3% in U.P.
- Tamil Nadu with the largest number of tanneries, leads the rest in regard to the number of units manufacturing shoe upper and garments. It ranks second in hand bags and small leather goods and ranks third in full shoes.
- U.P leads in full shoes, West Bengal in hand bags and small leather goods.
- Viewed from its size, which is very small compared with other states, Delhi's presence in leather products industry is remarkable.

2.12 SWOT ANALYSIS

"SWOT Analysis" on Leather Industry in General, Footwear, Tanneries, Leather Garments and Leather Gloves is given below. This will be helpful to the industry to devise measures to :

1. fully exploit the strengths ;
2. find remedial measures to get over the weaknesses ;
3. gear up the industry to meet the opportunities ; and
4. have a long term planning to meet the threats as they crop up.

There is no difficulty in understanding what "Strength" and "Opportunities" stand for.

"Weaknesses" refer to internal deficiencies that could be tackled, if the management has the will, through systematic measures to get over them.

"Threats" are external and are created by political, economic and technological changes that affect the industry.

2.12.1 SWOT ANALYSIS OF LEATHER INDUSTRY IN GENERAL

STRENGTHS:-

1. Availability of raw materials viz., hides and skins, either indigenously or through OGL ;

- ii. Comparatively reasonable labour cost for manufacturing and processing ;
- iii. Use of Sheep Nappa for garments ;
- iv. Buffalo calf and goat kid leathers are speciality products of India ;
- v. Government support in tune with the avowed policy of treating leather industry as an export thrust industry ;
- vi. High potential for export earnings.

WEAKNESSES :-

- i. Very large number of units in the unorganised sector ;
- ii. Low productivity ;
- iii. Antiquated technology ;
- iv. Indigenous machine tools of poor quality;
- v. Poor quality of indigenous raw material due to fallen hides and unscientific flaying ;
- vi. Continual increases in raw material price ;
- vii. Paucity of competent technologists and technicians ;
- viii. Inadequate attention to Quality Assurance ;
- ix. Lack of design capabilities ;
- x. Poor market intelligence ;
- xi. Close family linkage between the raw material suppliers, tanners and exporters;
- xii. Dependence on import for good grinders and embellishments;
- xiii. Great obsession to maintain utmost secrecy in regard to financial transaction and processing that deter utilisation of outside expertise ;
- xiv. A great reluctance to exchange of information amongst themselves in regard to various aspects of production and productivity, unlike other industries like Textile / Sugar which have greatly benefited by sharing of information ;
- xv. Lack of consistency in quality due to scant attention being paid to quality assurance.

OPPORTUNITIES :-

There is increasing demand for leather goods in Western Countries and Japan. There is thus great opportunity for increasing substantially India's share which is currently only 3.5 % of the world trade in leather products.

THREATS:-

- i. Inadequate measures for Effluent Control may affect the existence of Tannery ;
- ii. A few exporters adopting dubious trade practices for some short term gain act as stigma to Indian leather goods in the global market ;
- iii. Far reaching political changes in countries which are India's export markets.

2.12.2 SWOT ANALYSIS OF TANNERY

STRENGTHS :-

- i. Our country has large numbers of livestock with all

- varieties such as buffalo, cow, sheep and goat.
- ii. Conversion of hides and skins is known in this country for centuries.

WEAKNESSES :-

- i. Animals supplying the hides and skins are not scientifically reared;
- ii. Flaying of animals is not done scientifically;
- iii. Sizes of hides / skins are relatively small ;
- iv. Technology of upgrading poor grade leather is not common ;
- v. Inadequate Effluent Control measures lead to serious environmental problem which may even lead to closure of existing tanneries ;
- vi. Industry has yet to attract the best of human resources at the operating, supervisory, executive and management levels;
- vii. Lack of consistency in the quality of leather due to scant attention being paid to quality assurance;
- viii. A few exporters adopting dubious trade practices for some short term gain ;
- ix. Most of the tanneries being family managed, the ethos, culture and approaches are not conducive to professional management.

OPPORTUNITIES :-

Raw materials availability, either indigenously or through import and processing capacity within the country are adequate to meet an increasing demand for leather and leather products in the developed countries where tanneries are getting closed.

THREATS :-

Competition from countries like Pakistan, China, South Korea, Hongkong etc.

2.12.3 SWOT ANALYSIS OF FOOTWEAR INDUSTRY

STRENGTHS :-

- i. Availability of hides and skins either indigenously or through OGL suitable for footwear ;
- ii. Relatively low labour cost ;
- iii. Government policies and incentives favouring the export of value added leather goods.

WEAKNESSES :-

- i. Shortage of required number of competent footwear Engineers and Technicians ;
- ii. Inadequate marketing strategy and intelligence ;
- iii. Shortage of organised sales promotion, publicity and outlets;
- iv. Shortage of commitment at all levels in an enterprise for achieving excellence in quality ;
- v. Poor quality of finished product;
- vi. Inadequate designing and styling capability to suit the countries in the West ;

- yii. Inadequate availability of good quality soles, both leather and man-made ;
- viii. Production being more manual than machine based ;
- ix. Traditionally footwear manufacture has been oriented to meet the growing local demand itself ;
- x. Inadequacy in technology in our tanneries to upgrade different varieties of inferior leather crust into finished leather suitable for shoes ;
- xi. Industry dominated by cottage level and small scale entrepreneurs with their inherent limitations ;
- xii. The bad image created in the past by a few exporters who did not have their own country's long term interests.

OPPORTUNITIES :-

- i. Great potential for increasing India's share which is only 3.5 % of the world trade in leather and leather products ;
- ii. The demand for leather footwear is on the increase ;
- iii. Collaborations and tie-ups of various nature with countries in EEC and USA.

THREATS :

- i. In the lower end of the spectrum countries like China, Pakistan provide stiff competition ;
- ii. Quota restrictions by importing countries ;
- iii. Drastic fashion changes may result in sudden demand reduction.

2.12.4 SWOT ANALYSIS OF LEATHER GARMENT INDUSTRY

STRENGTHS :-

- i. Relatively low labour cost of manufacture ;
- ii. No paucity of skilled personnel ;
- iii. Use of sheep nappa as against cow hides by other countries ;
- iv. No paucity of sheep nappa ;
- v. Government of India's policies and incentives favouring the export of value added leather products.

WEAKNESSES :-

- i. Inadequacy in marketing strategy and marketing intelligence;
- ii. Inadequacy in organised sales promotion, publicity and outlets;
- iii. Absence of commitment on the part of the enterprise to achieve excellence in quality ;
- iv. Poor quality of finished products ;
- v. Absence of quick and positive response for attending to customer complaints ;
- vi. Poor packaging of finished product ;
- vii. Inadequacy in designing and styling capability to suit Western Market ;
- viii. Inadequacy in indigenous availability of good quality embellishments and accessories ;
- ix. Production more manual than machine oriented ;

- x. Continual rise in the price of leather.
- xi. Inadequacy in technology in our tanneries to upgrade the inferior leather crust into finished leather suitable for garments ;
- xii. Industry dominated by small scale entrepreneurs with their inherent limitations ;
- xiii. Absence of long term interests and the tendency on the part of some entrepreneurs to make a fast buck.

OPPORTUNITIES :-

- i. Increasing our share of suppliers in countries like West Germany, USA, UK , Denmark to whom we are already exporting;
- ii. New markets such as Canada, Japan, France, Scandinavia and CIS countries.

THREATS :-

- i. Our competitors such as China, Pakistan, Bangladesh, South Korea, Turkey, Morocco may overtake us, if we fail to cash in on the opportunity ;
- ii. Drastic fashion changes may result in sudden demand reduction.

2.12.5 SWOT ANALYSIS OF INDUSTRIAL GLOVES INDUSTRY

STRENGTHS :-

- i. Low labour cost of manufacture.
- ii. Easy availability of needed human resources.
- iii. Government policies and incentives for export in respect of leather industry in recent times favouring the export of value-added leather products.

WEAKNESSES :-

- i. Non-availability of cow splits in sufficient quantities in the different centres of manufacture in the country.
- ii. Inadequacy in planned marketing strategy and marketing intelligence.
- iii. Inadequacy in organised sales promotion, publicity and outlets.
- iv. Inconsistency in quality.
- v. Inadequacy in designing and styling capability to suit the changing trends.
- vi. Almost all the units manufacturing gloves are in the cottage and small scale sector with their inherent limitations. In particular, their volume of output is too low to meet the large volume of specific orders from countries such as USA.

OPPORTUNITIES :-

- i. The perceptible increase in demand for industrial gloves in the developed countries can be met by our units if we work systematically, maintain quality and keep to schedules.
- ii. The internal market for industrial gloves has also been growing steadily due to better awareness and more rigorous enforcement of protective clothing for workmen. This segment of market can also be catered to.

THREATS :-

- i. Our competitors are poised to grab the opportunities that are emerging.

2.13.1 EXPORT PERFORMANCE :-

- a. The export performance for five years from 1987-88 to 1991-92 is given in the following Table :-

TABLE - 9

EXPORT OF LEATHER AND LEATHER PRODUCTS

(Value in Million Rupees)

| | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Semi-Finished Leather | 726 | 450 | 211 | 123 | -- |
| Finished Leather | 4860 | 6499 | 6935 | 7899 | 7262 |
| Leather Footwear | 1280 | 1302 | 1714 | 2804 | 4561 |
| Footwear Components | 3238 | 4256 | 5182 | 5730 | 7024 |
| Leather Garments | 1057 | 1661 | 3329 | 5548 | 7805 |
| Leather Goods | 1287 | 1915 | 2929 | 3432 | 5495 |
| TOTAL | 12448 | 16083 | 20300 | 25536 | 32147 |
| Export in Million US \$ | N.A | 1111 | 1219 | 1423 | 1364 |

- b. Export of unfinished leather has been stopped since 91-92.
- c. In these five years the total export value in rupees has

increased nearly 2.5 times of which leather garments has increased seven times and leather goods four times.

- d. Notwithstanding this impressive growth, with its share in the world export market at 3.5 %, India has yet to make a significant presence in the international leather market.

2.13.2 Export targets for leather and leather products from India for the years 1993-94 to 1999-2000 are given in the following Table :-

TABLE - 10

| Year | Leather Footwear & Components (25% growth p.a) | Leather Garments (25% growth p.a) | Leather goods (20% growth p.a | Total in US \$ |
|-----------|---|--|---|----------------------|
| 1993-94 | | | | |
| Quantity* | 80.00 | 7.20 | 46.00 | |
| Value** | 750.00 | 500.00 | 320.00 | 1570 |
| 1994-95 | | | | |
| Quantity | 100.00 | 9.00 | 55.00 | |
| Value | 950.00 | 625.00 | 400.00 | 1975 |
| 1995-96 | | | | |
| Quantity | 125.00 | 11.20 | 66.00 | |
| Value | 1200.00 | 780.00 | 480.00 | 2460 |
| 1996-97 | | | | |
| Quantity | 160.00 | 14.00 | 80.00 | |
| Value | 1500.00 | 975.00 | 580.00 | 3055 |
| 1997-98 | | | | |
| Quantity | 200.00 | 17.50 | 96.00 | |
| Value | 1875.00 | 1200.00 | 700.00 | 3775 |
| 1998-99 | | | | |
| Quantity | 250.00 | 22.50 | 115.00 | |
| Value | 2350.00 | 1550.00 | 850.00 | 4750 |
| 1999-2000 | | | | |
| Quantity | 320.00 | 30.00 | 140.00 | |
| Value | 3000.00 | 2000.00 | 1000.00 | 6000 |

* all quantities are in millions of pieces
** all values are in millions of US \$

2.14 World Trade in Leather and Leather Products is shown below:

TABLE - 11

| (Value in Billion US \$) | |
|--------------------------|-------|
| Year | Value |
| 1972 | 4.0 |
| 1985 | 16.3 |
| 1992 | 41.47 |
| 2000 (Projected) | 60.00 |

This is due to the following factors:-

1. Spectacular growth despite emergence of substitutes.
2. Advanced countries satisfy their domestic demand largely through imports.
3. Production has shifted to low cost countries.
4. Wage component in cost of production has become the most important determinant for success of the industry in any location.
5. The trend is likely to persist.

2.15 OUR IMPORT POLICY :-

Our present import policy has been postulated in a manner to remove all the road blocks in importing the needed raw materials, chemicals and consumables etc. of the leather industry as shown briefly in the following table :-

TABLE - 12

| Product | Policy |
|--|---|
| 1. Hides and skins raw semi processed and finished. | Allowed freely without any import duty. |
| 2. Capital goods | Allowed liberally; at concessional import tariff of 25%. If importer would undertake generating foreign exchange equivalent to four times the CIF value of the imported capital goods by export, within 5 years, capital goods import allowed at a nominal import tariff of 15 %. |
| 3. Chemicals | Allowed liberally ; at concessional import tariff. |
| 4. Components, Consumables etc, for Footwear, Leather goods, garments etc. | Allowed liberally; at concessional import tariff. Could be imported duty free as well under certain specified circumstances and conditions. A factory could be custom bonded. In such a factory, all materials are allowed to be imported duty free, the only condition being that all imported products must be sent out of the country in the export product and a customs official is permanently posted in the factory at the cost of the factory. |
| 5. Materials for making components | Allowed liberally at extant customs tariff. |
| 6. Technology | Allowed liberally. |
| 7. Technicians | Allowed liberally. |
| 8. Second hand machinery | Allowed if the age of the machine is less than 7 years. If more than 7 years allowed if satisfactory justification is provided to the Director General of International Trade, Ministry of Commerce, Government of India, Udyog Bhavan, New Delhi. |

2.16

Our present import policy also favours units with the investment of foreign collaborations, as shown in the Table below :-

TABLE - 13

| Industry | Policy |
|---|--|
| 1. Leather, Footwear Garments & Leather Goods. | Foreign investment allowed upto 51%. |
| 2. Capital goods for leather, footwear and other related industries | No licence is required. Automatic approval is given by the Reserve Bank of India, the Central Bank of the country to whom an application has to be made. The address is : The Controller, Foreign Investment and Technology Transfer Section, Exchange Control Dept., Central Office, Reserve Bank of India, Bombay - 400 023. |
| 3. Chemicals | As above |
| 4. Components and Materials for making components. | As above |
| 5. Foreign export/trading companies. | Are allowed to open branches in India to invest in trading companies in India upto 51 %. Must apply to the Reserve Bank at the above address. |

CHAPTER - 3

LOANS AND ADVANCES TO LEATHER INDUSTRY

- 3.1.1 Commercial banks finance the working capital requirements and selectively, fixed capital requirements also of tannery and leather products manufacturing units. Fixed capital requirements like land, building, plant and machinery are generally financed by the term lending institutions, both at the all-India level and at state levels. SFCs mostly finance small scale units in the respective states, though in consortium with the State Industrial Development Corporations, they can finance a project with a total outlay upto Rs. 400 lakhs.
- 3.1.2 Leather industry being one of the traditional industries in the country, banks have been providing credit since long. Banks like State Bank of India, Indian Bank, Indian Overseas Bank, have been involved in financing leather industry for a number of years. Despite such long associations things have gone awry with the units becoming sick. The banks then initiate recovery proceedings or revival programmes, under RBI Guidelines. Rehabilitation programmes, particularly for medium and large industries, are done on a consortium basis with the term lending institutions concerned having exposure to the sick units, operating as active partners in the revival efforts. With the introduction of income recognition and provisioning norms for commercial banks especially, the banks are reluctant to commit additional finance for rehabilitation, as even these amounts come under the provisioning norms.
- 3.1.3 The general feeling of the affected units is that at the time of crisis, despite their long profitable association the assisting bank does not come all out to support the unit in distress to weather the crisis. In this background, the impression of the sick units is that the banking system is a "fair-weather friend" only. The reluctance on the part of the banks to assist sick units due to provisioning norms would only strengthen this impression.

BANK CREDIT TO LEATHER INDUSTRY

- 3.2.1 Information on bank credit to leather industry is available in the Banking Statistics published by Reserve Bank of India. In Annexure-I to this Chapter, the information on the number of units financed, credit limits sanctioned and loan amounts outstanding in respect of scheduled commercial banks as at the end of December, 1988, March, 1990, March, 1991 has been given. The published data as at the end of March, 1991 is the latest available.

3.2.2. Information on the number of units and bank credit to leather manufacturing units outstanding in respect of scheduled commercial banks as at the end of March, 1993 has been collected for use of the Committee by sending proformas to all the banks. The participation of Regional Rural Banks in financing leather industry being negligible, such information as at the end of March, 1993 has not been collected from these banks. Bank credit to leather industry classified state wise, including Banks' exposure against sick units is furnished in Annexure II.

3.2.3 The Committee recognises that bank loan outstandings as on a particular date by itself may not reflect the complete picture of a unit's state of affairs. Loan "outstandings" does not by itself give the total commitment of bank loans in the industry. Outstanding only shows the amount due to the banks from the assisted units. It is not the same as the amount of funds advanced to the industry. As indicated elsewhere in the report, leather and leather products manufacturing are subject to seasonality. Also banks and financial institutions generally would like to present as clean a balance sheet as possible and therefore would make redoubled efforts to recover "sticky" advances during the weeks before the end of the financial year. The figures of loan outstandings as at the end of March of any financial year will be less due to activated recovery process during the months near the close of the financial year. The outstandings will be higher during the middle of the year, say end June or end October than at the end of March. This apart, the limitations in reporting of data of especially smaller accounts spread over the entire massive branch network in India along side the rather elaborate definition of sick SSI units including sick/tiny village industries in the decentralised sector, have their toll in arriving at accurate information. The Committee has perforce to keep in view the aforesaid limitations in the analysis of data pooled from banks as well as SFCs.

3.2.4 For the purpose of identifying sick leather units comprising sick and weak non-SSI units and sick SSI units, the following definitions have been adopted by RBI.

(i) Non-SSI Sick Unit:

3.2.5 An industrial company (being a Company registered for not less than 7 years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such financial year immediately preceding such financial year (as per Section 3 (1) (O) of Sick Industrial Companies (Special Provisions) Act, 1985.

(ii) Non-SSI Weak Unit:

3.2.6 A non-SSI unit is defined as "weak" unit if it has at the

end of any accounting year accumulated losses equal to or exceeding 50 percent of its peak net worth in the immediately preceding five accounting years.

(iii) SSI Sick Unit:

3.2.7 A small scale industrial unit should be considered as "sick" if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 percent of its peak net worth in the immediately preceding five accounting years.

3.2.8 In the case of tiny and decentralised sector also, a unit may be considered as "sick", if it satisfies the above definition. However, in the case of such units where it is difficult to get the financial particulars, a unit may be considered as "sick" if it defaults continuously for a period of one year in the payment of interest or instalments of principals and there are persistent irregularities in the operation of its credit limit with the bank.

3.2.9 Definition of sickness imposes certain unintended limitations. Definitions are no doubt useful to determine the point of time when a unit requires concessions. Definitions may also lead to a situation in which the assisting institution feels that steps to ameliorate a sick unit by granting concessions need be taken only after the unit satisfies the definition of a sick unit. When a symptom, even a doubtful one, surfaces, bank should get alerted and examine ameliorative measures which do not involve concessions like waiver of penal interest, funding of overdues. For example, in deserving cases temporary reduction in margin, increasing the working capital limits, sanctioning term loan for purchase of generators to stabilise production during power-starved months, or purchase of balancing equipment not involving large investment, can be sanctioned by the bank itself.

3.2.10 This is akin to a mother paying attention to her child when the child's temperature goes just above normal, by taking certain prudent steps like not giving the child a cold bath and being careful in feeding the child. This itself in many cases may prevent the on-slaught of more serious illness or reduce the rigour of serious illness. No mother will wait till the temperature of the child goes beyond 102 and rush about for serious medication.

3.2.11 Till 31.3.93, RBI has continued to treat an SSI unit in the aforesaid classification as one with an investment (original cost) in plant & machinery not exceeding Rs. 35 lakhs and in the case of ancillary units not exceeding Rs. 45 lakhs provided that no such unit is a subsidiary in any way of any other undertaking.

- 3.2.12 Bank credit to leather industry, both in terms of number of leather manufacturing units financed and amount financed was mainly concentrated in Tamil Nadu, Uttar Pradesh, Delhi, West Bengal, and Maharashtra as may be seen from the following:

TABLE - 1

| Sl No | State | Total Bank Credit No. | Amount (Rs Crores) | Average credit per unit in Rs lakhs |
|-------|---------------|-----------------------|--------------------|-------------------------------------|
| 1. | Tamil Nadu | 808 (9.3) | 539.46 (51.7) | 66.76 |
| 2. | Uttar Pradesh | 5492 (63.5) | 133.75 (12.8) | 2.43 |
| 3. | West Bengal | 220 (2.5) | 82.05 (7.9) | 37.30 |
| 4. | Delhi (UT) | 830 (9.6) | 79.07 (7.6) | 9.53 |
| 5. | Karnataka | 40 (0.6) | 73.03 (7.0) | 182.57 |
| 6. | Maharashtra | 141 (1.6) | 70.35 (6.7) | 49.89 |
| 7. | Other States | 1114 (12.9) | 65.11 (6.3) | 5.84 |
| TOTAL | | 8645 (100.0) | 1042.82 (100.0) | |

(Figures in brackets denote percentage to total)

- 3.2.13 While Tamil Nadu dominates in total bank credit provided to leather manufacturing units, Uttar Pradesh far outstrips other states in terms of number of units financed. Average credit per unit varies from Rs.183 lakhs in Karnataka to Rs. 2.43 lakhs in Uttar Pradesh. This gives an idea of the average size of the bank assistance to leather units in each of these States.

3.3 TERM LOANS TO LEATHER INDUSTRY BY FINANCIAL INSTITUTIONS:

The Committee had addressed financial institutions comprising all-India level financial institutions (IDBI, IFCI and ICICI) and the State Finance Corporations, for obtaining information, as in the case of banks, on loans extended to leather industry as at the end of March, 1993. IDBI, IFCI, ICICI, and IRBI have furnished the relevant data. Excepting SFCs in Uttar Pradesh, Delhi (UT), Maharashtra, Punjab and Haryana, the remaining SFCs whose credit to leather units forms the predominant part of state level financial institutions, have responded in the prescribed formats. For the leather manufacturing units, both healthy and sick, financed by financial institutions, banks have, in most cases, provided the working capital finance. Again the number of units assisted and the amount of term loan provided by the financial institutions are much smaller than

the number of assisted units and the working capital finance provided by commercial banks. Based on the information furnished by the financial institutions, term loans outstanding against leather manufacturing units including sick units, classified state-wise is given in the Annexure III. The definitions for classifying sick units are the same as adopted by the banks and pertain to March, 1993. It may be noted in this connection that the definition of sick SSI units has since been revised on the lines recommended by the Nayak Committee.

- 3.3.1 From Annexure III it may be seen that Tamil Nadu leads in term loans extended to leather manufacturing units, followed by Andhra Pradesh, Uttar Pradesh and West Bengal. The summary is as follows:

TABLE - 2
TOTAL TERM LOANS (Rs. in Crores)

| State | No. | Amount |
|----------------|-------------|--|
| Tamil Nadu | 129 (16.4) | 60.01 (34.1) |
| Andhra Pradesh | 109 (13.8) | 23.49 (13.3) |
| Uttar Pradesh | 6 (0.8) | 20.21 (11.5) (Data on SSI units not available) |
| Karnataka | 138 (17.5) | 9.62 (5.5) |
| Other States | 405 (51.5) | 62.64 (35.6) |
| | 787 (100.0) | 175.97 (100.0) |

(Figures in brackets denote percentage to total)

- 3.3.2 Of the total term loans Rs.175.97 crores, the share of All India Financial Institutions is Rs.132.02 crores or 75.0 percent of the total.

The shares of the States with percentage over 9% are as follows:

TABLE - 3

| S.No. | State | Amount (Rs in Crores) | % To Total |
|-------|----------------|--------------------------|------------|
| 1. | Tamil Nadu | 45.62 | 34.6 |
| 2. | Uttar Pradesh | 20.21 | 15.3 |
| 3. | Punjab/Haryana | 12.84 | 9.7 |
| 4. | Andhra Pradesh | 12.13 | 9.2 |

ANNEXURE - 1
(Chapter 3.2.1)

Scheduled Commercial Banks Credit to Leather Industry

(Rs in Crores)

| Sl No | Category of Banks | As on 31-12-88 | | | As on 31-03-90 | | | As on 31-03-91 | | |
|-------|----------------------------------|----------------|---------------|--------------------|----------------|---------------|--------------------|----------------|---------------|--------------------|
| | | No. | Credit Limits | Amount Outstanding | No. | Credit Limits | Amount Outstanding | No. | Credit Limits | Amount Outstanding |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| 1 | SBI and Associates | 2347 | 296.79 | 264.12 | 3319 | 405.52 | 379.11 | 3703 | 417.93 | 365.91 |
| 2 | Nationalised Banks | 5547 | 422.25 | 344.03 | 7223 | 618.41 | 567.53 | 8451 | 792.83 | 684.96 |
| 3 | RRBs | 5 | 0.03 | 0.02 | 5 | 0.04 | 0.04 | 8 | 0.05 | 0.04 |
| 4 | Other scheduled Commercial banks | 550 | 52.26 | 44.07 | 421 | 19.64 | 14.62 | 525 | 28.60 | 21.76 |
| 5 | Foreign Banks | - | - | - | 205 | 49.08 | 42.73 | 181 | 45.64 | 38.68 |
| TOTAL | | 8449 | 771.33 | 652.24 | 11173 | 1092.89 | 1004.03 | 12868 | 1285.05 | 1111.35 |

Source: Banking Statistics. Volumes published by Reserve Bank of India.

ANNEXURE - II
(Chapter 3.2.2)

BANK CREDIT TO LEATHER INDUSTRY AS ON 31st MARCH, 1993

(Rs in Crores)

| Sl No | STATE | TOTAL BANK CREDIT | | | | ON WHICH OUTSTANDING AGAINST SICK UNITS | | | | | | | |
|-------|---|-------------------|--------|-----------|--------|---|---------|-------------------------|--------|----------------|--------|-------|--------|
| | | Non-SSI Units | | SSI Units | | TOTAL | | Sick/Weak Non-SSI Units | | Sick SSI Units | | TOTAL | |
| | | No | Amount | No | Amount | No | Amount | No | Amount | No | Amount | No | Amount |
| 1 | TAMIL NADU | 198 | 330.20 | 610 | 209.26 | 808 | 539.46 | 36 | 39.78 | 106 | 27.58 | 142 | 67.36 |
| 2 | UTTAR PRADESH | 32 | 46.19 | 5460 | 87.56 | 5492 | 133.75 | 7 | 10.01 | 38 | 6.45 | 45 | 16.46 |
| 3 | WEST BENGAL | 21 | 24.30 | 199 | 57.75 | 220 | 82.05 | 9 | 8.95 | 30 | 5.64 | 39 | 14.59 |
| 4 | DELHI (UT) | 29 | 51.81 | 801 | 27.26 | 830 | 79.07 | - | - | 653 | 4.75 | 653 | 4.75 |
| 5 | ANDHRA PRADESH | 6 | 8.10 | 39 | 6.25 | 45 | 14.35 | 4 | 6.62 | 10 | 2.59 | 14 | 9.21 |
| 6 | KARNATAKA | 7 | 43.23 | 33 | 29.80 | 40 | 73.03 | 1 | 0.06 | 5 | 1.41 | 6 | 1.47 |
| 7 | MAHARASHTRA | 33 | 38.98 | 108 | 31.37 | 141 | 70.35 | 15 | 3.36 | 47 | 3.32 | 62 | 6.68 |
| 8 | PUNJAB / HARYANA | 19 | 7.18 | 47 | 15.39 | 66 | 22.57 | 3 | 0.57 | 3 | 0.36 | 6 | 0.93 |
| 9 | RAJASTHAN | 2 | 0.73 | 904 | 15.44 | 906 | 16.17 | 1 | 0.73 | 9 | 0.07 | 10 | 0.80 |
| 10 | BIHAR | 3 | 3.46 | 15 | 1.41 | 18 | 4.87 | 3 | 3.46 | 13 | 1.40 | 16 | 4.86 |
| 11 | MADHYA PRADESH | - | - | 53 | 4.31 | 53 | 4.31 | - | - | 40 | 3.04 | 40 | 3.04 |
| 12 | GUJARAT | 1 | 0.97 | 3 | 0.10 | 4 | 1.07 | 1 | 0.97 | 2 | 0.06 | 3 | 1.03 |
| 13 | KERALA | 2 | 0.47 | 10 | 0.12 | 12 | 0.59 | 1 | 0.11 | - | - | 1 | 0.11 |
| 14 | OTHER STATES (Orissa, Jammu & Kashmir, Himachal Pradesh) | 2 | 1.10 | 8 | 0.08 | 10 | 1.18 | - | - | 3 | 0.02 | 3 | 0.02 |
| | <u>ALL INDIA</u> | 355 | 556.72 | 8290 | 486.10 | 8645 | 1042.82 | 81 | 74.62 | 959 | 56.69 | 1040 | 131.31 |

Source: Reports to the Committee from Banks

TERM LOANS DISBURSED BY FINANCIAL INSTITUTIONS TO LEATHER INDUSTRY AS ON 31st MARCH, 1993

(Rs Crores)

| Sl No | STATE | TOTAL TERM LOAN OUTSTANDING | | | | | | OF WHICH OUTSTANDING AGAINST SICK UNITS | | | | | | REMARKS |
|-------|----------------|--|--------|--|---------|-------|--------|---|--------|---|---------|-------|--------|--|
| | | All-India Financial Institutions (IDBI, IFCI ICICI & IRBI) | | State Finance Corporation of State Concerned | | TOTAL | | All-India Financial Institutions | | State Finance Corpn. of State Concerned | | TOTAL | | |
| | | No. | Amount | No. | Amount | No. | Amount | No. | Amount | No. | Amount | No. | Amount | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 1 | Tamil Nadu | 15 | 45.62 | 114 | 14.39 | 129 | 60.01 | 3 | 5.35 | 14 | 2.59 | 17 | 7.94 | |
| | | | | (6)* | (2.34)* | | | | | (3)* | (1.39)* | | | |
| 2 | Uttar Pradesh | 6 | 20.21 | - | - | 6 | 20.21 | 1 | 6.91 | - | - | 1 | 6.91 | The SFC concerned has not furnished data |
| 3 | West Bengal | 6 | 7.74 | 14 | 2.88 | 20 | 10.62 | 3 | 3.73 | 5 | 1.92 | 8 | 5.65 | |
| | | | | (1)* | (0.74)* | | | | | (1)* | (0.74)* | | | |
| 4 | Delhi (UT) | 7 | 9.39 | - | - | 7 | 9.39 | - | - | - | - | - | - | - do - |
| 5 | Andhra Pradesh | 10 | 12.13 | 99 | 11.36 | 109 | 23.49 | 5 | 2.89 | 51 | 6.57 | 56 | 9.46 | |
| 6 | Karnataka | 3 | 3.33 | 135 | 6.29 | 138 | 9.62 | - | - | 13 | 3.37 | 13 | 3.37 | |
| | | | | (6)* | (2.30)* | | | | | (1)* | (0.46)* | | | |

ANNEXURE - III
(Chapter 3.3.1)
(contd)

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|-------|------------------|----|--------|------|---------|-----|--------|----|-------|------|---------|-----|-------|--|
| 7 | Maharashtra | 4 | 9.78 | - | - | 4 | 9.78 | - | - | - | - | - | - | The SFC concerned has not furnished data |
| 8 | Punjab / Haryana | 5 | 12.84 | - | - | 5 | 12.84 | 3 | 4.81 | - | - | 3 | 4.81 | |
| 9 | Rajasthan | 2 | 1.98 | - | - | 2 | 1.98 | 1 | 1.23 | - | - | 1 | 1.23 | - do - |
| 10 | Bihar | 1 | 0.28 | 4 | 1.51 | 5 | 1.79 | 1 | 0.28 | 4 | 1.51 | 5 | 1.79 | |
| 11 | Madhya Pradesh | 3 | 6.43 | 5 | 0.09 | 8 | 6.52 | - | - | - | - | - | - | |
| 12 | Gujarat | - | - | 22 | 1.21 | 22 | 1.21 | - | - | 1 | 0.24 | 1 | 0.24 | |
| | | | | (3)* | (0.57)* | | | | | (1)* | (0.24)* | | | |
| 13 | Kerala | 2 | 2.29 | 4 | 1.03 | 6 | 3.32 | 2 | 1.27 | - | - | 2 | 1.27 | |
| | | | | (1)* | (0.24)* | | | | | | | | | |
| 14 | Jammu & Kashmir | - | - | 326 | 5.19 | 326 | 5.19 | - | - | - | - | - | - | |
| 15 | Other States | - | - | - | - | - | - | - | - | - | - | - | - | |
| TOTAL | | 64 | 132.02 | 723 | 43.95 | 787 | 175.97 | 19 | 26.47 | 88 | 16.20 | 107 | 42.67 | |

* - Of which outstanding against Non-SSI Units.

CHAPTER - 4

SICKNESS IN LEATHER INDUSTRY AND THEIR MAIN CAUSES

4.1.1 Any economic activity involves interaction of men, machines, material and money to produce a product for marketing. Deficiency in any of the five elements, viz., men, machine, material, money and marketing is bound to affect the well-being of a unit.

4.1.2 Where there is life, there will also be sickness around. So also is the case with any economic activity. Sickness cannot be totally eradicated from any unit. By adopting measures to control the debilitating practices and by keeping a careful and continual watch on the well-being of a unit, sickness can be prevented. Despite this, if sickness creeps in, early identification and effective curative measures, would ensure that sickness does not lead to fatality.

4.2 CONTRIBUTION TO SICKNESS

Those who contribute to sickness are many and include the following:

- i. The Entrepreneur himself;
- ii. The assisting bank;
- iii. The assisting Financial Institution;
- iv. The State Governments and their Agencies;
- v. The Central Government and their Agencies;
- vi. Others.

4.3.1 CAUSES FOR SICKNESS

The causes attributable directly or indirectly to the entrepreneur are many. These have been categorised as hereunder:

A. Deficiency in Project Formulation:

- i. Wrong location;
- ii. Sub-optimal plant capacity;
- iii. Low capital base.

B. Deficiency in Project Implementation:

- i. Defective machinery;
- Mis-matching of plant & machinery;

- iii. Delay in implementation;
- iv. Over-run in the project cost.

C. Deficiency in Project Management:

- i. Promoter's poor entrepreneurial abilities;
- ii. Questionable integrity of promoters;
- iii. Promoters not wholeheartedly committed to the project;
- iv. Dissension and discord amongst the promoters;
- v. Poor man-management leading to rapid turn-over of personnel, in particular, technical;
- vi. Poor industrial relations.

D. Deficiency in Project Operation:

- i. Defects in production;
- ii. Inadequate planning of marketing efforts;
- iii. Poor quality of products;
- iv. High rate of rejection/rework;
- v. Poor costing and accounting;
- vi. Inadequate working capital;
- vii. Accumulation of dead stock;
- viii. Overdue payments from debtors.

4.4 The Committee would like to mention that in case of export oriented units, political cataclysm in importing country affect these units to the extent of making them fall sick. In recent times, due to the disintegration of USSR, the units exporting to USSR are, for no fault of theirs, facing considerable difficulties. Measures to alleviate their sufferings and preventing them from falling sick have been indicated in Chapter 5.

4.5.1 The perception of the following involved in the industry is given below:

- (i) Commercial Banks
- (ii) Financial Institutions
- (iii) Board for Industrial and Financial Reconstruction (BIFR)
- (iv) All India Chamber of Footwear Exporters (AICFE)
- (v) All India Small Scale Shoe Uppers & Shoes Manufacturers Association
- (vi) All India Skins and Hide Tanners and Merchants Association (AISHTMA)

4.5.2 (i) The major causes for sickness in leather manufacturing units as reported by banks has been classified in Annexure I. These in brief are as follows:

TABLE - 1

| Sl No | Major causes as reported by the banks | No of units (both Non-SSI sick/weak & SSI units) | Percentage with reference to actually reported |
|-------------|---|---|--|
| 1. | Management shortcomings including frequent changes in ownership, family disputes and labour problems. | 72 | 30.4 |
| 2. | Diversion of funds/willful default | 54 | 22.8 |
| 3. | Marketing problems including failure in exports | 89 | 37.6 |
| 4. | Outside factors such as fire, riots, accidents, changes in Govt policy | 13 | 5.4 |
| 5. | Technical problems/Low production | 9 | 3.8 |
| Total | | 237 | 100.0 |
| 6. | No information as to cause in the banks' statements | 803 | - |
| Grand Total | | 1040 | |

4.5.2 (ii) In as many as 803 out of 1040 sick units, forming 77.2 percent of the total, information as to the cause for sickness has not been given by banks in their statements. This is probably, because of absence of close follow-up after the disbursement of loan. This in a sense vitiates the analysis based on the reporting units, which are only 22.8% of the total. Of the remaining 237 units on which banks have given information, 72 (30.4%) are reported sick due to management short-comings, 54 (22.8%) due to diversion of funds/willful defaults, and 89 (37.6%) due to marketing problems.

4.5.2 (iii) It may be noted that according to bank's assessment, inadequacy of working capital is not one of the causes of sickness.

4.5.3 FINANCIAL INSTITUTIONS:

(i) From the information furnished by the Financial Institutions (FIs), the major causes for sickness as listed by them have been collated in Annexure II. The details are as follows:

TABLE - 2

| Sl No | Major causes for sickness as reported by FIs | No. of units (both Non-SSI sick/weak & SSI units) | Percentage with ref to no actually reported |
|-------|--|---|---|
| 1. | Management shortcomings | 22 | 46 |
| 2. | Marketing problems | 14 | 29 |
| 3. | Lack of adequate working capital | 10 | 21 |
| 4. | Diversion of funds | 1 | 2 |
| 5. | Technical problems/ low level production | 1 | 2 |
| Total | | 48 | 100 |
| 6. | Not reported by the SFCs concerned | 55 | - |
| | | 103 | |

(ii) That no information has been reported for 55 units or 53% of the total by SFCs could probably be because there has been no systematic follow-up of the assisted units. With the high 53% not reporting, the analysis of the balance 47% may not give an absolutely correct picture. Causes like "management shortcomings", "marketing problems", "diversion of funds" listed by the banks are also mentioned by Financial Institutions. In addition, "inadequacy of working capital finance" has been listed in 10 out of 48 sick units on which reports of FIs are available.

4.5.4 BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION (BIFR)

(i) Out of the 18 industrial companies dealing with leather and leather goods that came up before BIFR, two were not pursued, two were under process, one case was under court stay order and three have been recommended for being wound up.

(ii) Out of the total of 41 units under non-SSI sector,

reported sick by banks, eighteen had gone before BIFR.

(iii) An analysis by BIFR of the causes of sickness in 12 leather units shows that working capital and management inadequacy is common to almost all these sick leather industrial units. The next two major reasons are problems of marketing and problems of labour. Some have problems of raw material. A few have other technical and financial problems. The Table below gives the classification of the broad reasons for sickness in the 12 units :

TABLE - 3

| <u>Sl</u> <u>No</u> | <u>Broad reasons for sickness</u> | <u>No of companies</u> <u>facing this</u> |
|------------------------|--|--|
| 01 | Management Inadequacies | 11 |
| 02 | Shortage of working capital | 10 |
| 03 | Marketing problems | 8 |
| 04 | Labour problems | 8 |
| 05 | Shortage of raw materials/other inputs | 5 |
| 06 | Technical problems | 2 |
| 07 | Financial problems | 2 |
| 08 | Cost over-run | 2 |
| 09 | Government policies | 2 |
| 10 | Power shortages | 1 |

4.5.5 All India Chamber of Footwear Exporters (AICFE):

This organisation has given its assessment as follows:

• **Personal Involvement:**

• Most of the tanning units which are located in South are fed by raw hides or skin supply from North which loses their value in transit.

• The transportation cost is another factor and most important thing is the distance and time which results in losses of quality during transit. So, for the health of industry wet blue processing, air-conditioned ware-houses are to be set up in the North to South.

• **Overheads:**

• Heavy investment with high interest cost, low sales and high production costs results in increase of overhead which ultimately leads to final losses. So the overheads costs including interest are also vital to the economical viability.

• **Sales and Purchase Prices:**

• This is the area where prices have no standard because it depends upon the quality you have which bring real prices, but the sale price may not be based on real cost but will be on market prices whereas ones purchases may not be strong and highly inflated. So in this way ones trading account may result in the losses.

• **Conclusion:**

• The viability and health of the industry depends on single parameter that now personally you are involved to control the affairs".

4.5.6 All India Small Scale Shoe Upper & Shoe Manufacturers Association:

The assessment of this organisation is as here under:

• The main problem of the exporter of the value added leather goods is that he does not get the payment on time.

• For the past 3 years the manufacturers of leather shoe uppers are getting very few direct orders. As they are not having work on hand they immediately accept the order from the foreign buyer without studying the terms and conditions laid down in the Letter of Credit. Moreover when the amount is not received on time the banks through whom the documents have been negotiated threatens the parties that the credit would be delinked.

• In order to keep up the reputation of the firm the exporter is obliged to borrow the money from the open market at an exorbitant interest of Rs.4/- per 100 per month which works out to 48%.

• In order to avoid complications which lead to the problems for the leather industry, the exporter should be advised not to accept orders hurriedly unless and until he studies carefully all the terms and conditions of the letter of credit.

" (ii) With an idea of helping the exporter it is suggested that the financial institutions and the Nationalised Banks should have a separate cell which should be asked to go through the terms and conditions of the letter of credit before the order is confirmed.

" (iii) Previously footwear industry was reserved exclusively for the small scale sector. With the change in the policy of the Government of India the Big Business Houses and the Multi National companies under the guise of broad banding have already entered the footwear industry. Due to this the small scale manufacturers are not getting direct orders from the Foreign Buyers.

" There are thousands of shoe upper units all over the country which were established during the past 10 years from term loans made available to them by the financial institutions and the nationalised banks. Each one of the SSI units which is equipped with imported footwear machinery is capable of manufacturing from 200 pairs to 800 pairs per day in a shift of 8 hours. Due to the invasion of the footwear industry by the Big Business Houses and Multi National companies the SSI units are not getting direct orders from the foreign buyers. Many of the SSI units are not having work on hand.

" In the shoe industry there are two separate sections, the upper section and the bottom section. The upper section is more complicated when compared to the bottom section. In the best interest of the country we suggest that the manufacturer of shoe uppers should be reserved exclusively for the small scale sector.

" The big business houses and the multi national companies have secured direct orders from the foreign buyer should establish in India only the bottom section by importing the Toe Lasting, Seat Lasting, Side Lasting and Sole Laying Machines. They should be asked to purchase their requirements of shoe uppers from the SSI units in the SKD and CKD form.

" Their bottom section would only be fixing the unit soles under the stuck-on-process.

" By adopting the above mentioned method both the upper unit as well as the bottom unit would be having enough work which would ultimately increase the production of quality shoes for export. In order to help the sick units we suggest that the rate of interest should also be reduced considerably."

4.5.7

The All India Skins and Hide Tanners and Merchants Association: (AISHTMA)

- (a) AISHTMA has commissioned a Consultancy Company to study sickness in 13 of the tanneries in Ambur/Vaniyambadi area. The salient features of the report are :

(i) The dates of establishment of the thirteen are:

1940 (1),
1960 (1),
1963 (1),
1964 (1).
1969 (1),
1972 (1),
1976 (2),
1978 (2),
1980 (1),
1984 (2).

(ii) The total installed capacity of the thirteen tanneries is about 28000 skins per day, most of them being 3000 skins per day.

(iii) Of the thirteen, three are proprietorship and ten are partnerships.

(iv) Three units have been closed and ten are doing job work.

(v) In six cases assisting banks have filed cases.

- (b) According to the preliminary report of the consultant to AISHTMA the most critical cause for sickness is the delayed /non-realisation of bills due to improper relation of buyers, quality of end product and non-conformance of specifications. The other critical causes are non-scientific management practices and external factors such as world recession, fashion changes and Government policies.

- (c) In the Consultant's report the following Recommendations have been made:

(i) Ensuring more self-discipline for units in using packing credit alongside banks exercising proper monitoring of the accounts.

(ii) Improved inputs in production (technological improvement).

(iii) Appropriate additional investment to bring about modernisation.

(iv) Sufficient control over production process to ensure quality in output and to avoid time delays, cargo handling and air-freight arrangements required improvement.

(v) Proper appraisal of new projects along side improving accounting standards.

(vi) Take up with the right authorities regarding impact of Government policies.

(vii) AISHTMA/CLE should provide professional help to improve the unit's working (planning and control). This will improve management practices and thereby, among others, keep abreast with fashion changes.

4.6 BANK CREDIT TO SICK LEATHER MANUFACTURING UNITS:

As on 31st March, 1993, total bank credit to sick leather manufacturing units was Rs.131.31 crores and formed 12.6 percent of aggregate bank credit to leather industry. The proportion of advances to sick units to total bank advances to all industries in India as at the end of March, 1992 (latest available) was 17.6 percent. State-wise, for leather industry, in those states with bank credit exceeding Rs. 50 crores, the proportion of "sick" advances to total advances was high in West Bengal at 17.6 percent and low in Delhi (UT) at 6.0 percent. The reason for this is that West Bengal has a large number of small tanneries and Delhi has more leather product units. Tamil Nadu has both tanneries and leather product units, the percentage is nearly equal to all-India average. The following Table provides relevant data.

TABLE - 4

(Rs in Crores)

| Sl No | State | Total Bank credit | Of which outstanding against sick units | percentage of (4) to (3) |
|-------|---------------|-------------------|---|--------------------------|
| (1) | (2) | (3) | (4) | (5) |
| 1. | Tamil Nadu | 539.46 | 67.36 | 12.5 |
| 2. | Uttar Pradesh | 133.75 | 16.46 | 12.3 |
| 3. | West Bengal | 82.05 | 14.59 | 17.6 |
| 4. | Delhi (UT) | 79.07 | 4.75 | 6.0 |
| 5. | Karnataka | 73.03 | 1.47 | 2.0 |
| 6. | Maharashtra | 70.35 | 6.68 | 9.5 |
| 7. | All-India | 1042.82 | 131.31 | 12.6 |

STATE-WISE SICKNESS IN LEATHER INDUSTRY

4.7.1 The following Table gives information of state-wise incidence of sickness in the leather industry.

TABLE - 5

| Sl No | State | Total bank credit outstanding against sick leather manufacturing units | | Average credit per unit (Rs in lakhs) |
|-------|----------------|--|--------------------------|--|
| | | No. | Amount (Rs in crores) | |
| 1. | Tamil Nadu | 142 (13.7) | 67.36 (51.3) | 47.44 |
| 2. | Uttar Pradesh | 45 (4.3) | 16.46 (12.5) | 36.60 |
| 3. | West Bengal | 39 (3.7) | 14.59 (11.1) | 37.41 |
| 4. | Delhi (UT) | 653 (62.8) | 4.75 (3.6) | 0.73 |
| 5. | Andhra Pradesh | 14 (1.3) | 9.21 (7.0) | 65.80 |
| 6. | Maharashtra | 62 (6.0) | 6.68 (5.1) | 10.75 |
| 7. | Bihar | 16 (1.5) | 4.86 (3.7) | 30.38 |
| 8. | Madhya Pradesh | 40 (3.8) | 3.04 (2.3) | 7.60 |
| 9. | Others | 29 (2.9) | 4.36 (3.4) | 15.03 |
| Total | | 1040 (100) | 131.31 (100) | 12.63 |

(figures in brackets denote percentage to total)

4.7.2 The average credit per sick unit varies from Rs.65.80 lakhs in Andhra Pradesh to Rs..0.73 lakhs only in Delhi. For UP having only 45 sick units as against 142 in Tamil Nadu, the average credit per sick unit is Rs.36.60 lakhs. Average credit per unit can be treated as an index of bank funds in jeopardy in leather industry in those States, requiring some careful attention by assisting banks.

4.7.3 Tamil Nadu has the largest incidence of sickness in leather industry, in the country both in number and amount. Bank credit against sick units at Rs.67.36 crores in Tamil Nadu forms 51.3 percent of the total credit to sick leather manufacturing units, Uttar Pradesh with Rs.16.46 crores (12.5%) comes second and West Bengal with Rs.14.59 crores (11.1%) comes third. Other States having significant amounts of bank credit to sick leather manufacturing units comprise Andhra Pradesh (Rs.9.21 crores), Maharashtra (Rs.6.68 crores), Bihar (Rs. 4.86 crores), Delhi (Rs.4.75 crores), and Madhya Pradesh (Rs. 3.04 crores). Bank credit to sick leather manufacturing units was not significant in other states.

BANK-WISE/STATE-WISE EXPOSURE TO SICK LEATHER MANUFACTURING UNITS

4.6.1 The following banks have large exposure (i.e., exceeding Rs 5 crores) against sick leather manufacturing units.

TABLE - 6

| Sl. No. | Name of the Bank | Advances to sick units | |
|--|-------------------------|------------------------|-------------------------|
| | | No. | Amount Rs in crores) |
| I <u>SBI and its associates</u> | | | |
| 1. | State Bank Of India | 754 | 26.85 |
| 2. | State Bank Of Hyderabad | 10 | 13.68 |
| II <u>Nationalised Banks</u> | | | |
| 1. | Indian Bank | 44 | 13.18 |
| 2. | Punjab National Bank | 17 | 11.87 |
| 3. | Indian Overseas Bank | 8 | 6.85 |
| 4. | Union Bank | 22 | 5.42 |
| 5. | Syndicate Bank | 22 | 5.31 |

4.6.2 SBI and its associates, because of their spread of branches, have naturally 'sick' advances in nearly all the states concerned. All the nationalised banks, except Oriental Bank of Commerce, have given advances to units in leather manufacturing. Again, except Dena Bank, United Bank of India, Bank of Maharashtra, Oriental Bank of Commerce and New Bank of India, all the nationalised banks having branches in Tamil Nadu have assisted leather units there. UCO Bank, Union Bank, United Bank of India, and Allahabad Bank have major share of sick advances in West Bengal. Similarly, Bank of Baroda, Indian Bank and Bank of India have predominant share in Uttar Pradesh. In Maharashtra, banks having major share in advance to sick units are Bank of Maharashtra and Bank of Baroda. In Delhi (UT) Indian Overseas Bank and Allahabad Bank have significant exposure to sick leather units.

4.6.3 Six private sector banks and two foreign banks operating in India have reported having made advances to sick leather manufacturing units. These advances are mostly in Tamil Nadu and West Bengal. The amounts were relatively small.

4.6.4 According to the reports from the banks, as at the end of March 1991, the total outstanding of the 41 sick leather units in the non-SSI sector was Rs.74.59 crores of which Rs.71.06 crores was in tanneries and the balance Rs.3.53 crores in leather products. The following Table summarise the position;

TABLE - 7

| | Number | % to the Total |
|----------------------------|--------|----------------|
| Total number of sick units | 41 | 100 |
| Number of Tanneries | 35 | 85 |
| Number of Leather goods | 6 | 15 |

TABLE - 8

| OUTSTANDINGS | Rs in crores | % to the Total |
|---------------------|--------------|----------------|
| Total | 74.59 | 100 |
| Tanneries | 71.06 | 95 |
| Leather goods units | 3.53 | 5 |

4.8.5 State-wise distribution of tanneries with the aggregate outstanding;

TABLE - 9

| STATE | NUMBER | % TO TOTAL | OUTSTANDING (in Rs Crores) | % TO TOTAL |
|----------------|-----------|---------------|----------------------------|---------------|
| Andhra Pradesh | 2 | 5.71 | 5.50 | 7.74 |
| Bihar | 1 | 2.86 | 3.54 | 4.98 |
| Delhi | 1 | 2.86 | 0.14 | 0.20 |
| Gujarat | 1 | 2.86 | 0.77 | 1.08 |
| Haryana | 1 | 2.86 | 2.07 | 2.91 |
| Karnataka | 1 | 2.86 | 0.92 | 1.29 |
| Maharashtra | 2 | 5.71 | 1.83 | 2.58 |
| Punjab | 1 | 2.86 | 1.71 | 2.41 |
| Tamil Nadu | 22 | 62.85 | 43.77 | 61.60 |
| Uttar Pradesh | 1 | 2.86 | 1.15 | 1.62 |
| West Bengal | 2 | 5.71 | 9.66 | 13.59 |
| TOTAL | 35 | 100.00 | 71.06 | 100.00 |

4.8.6 From the Table 8, it will be seen that the share of tanneries is 95% of outstandings and that of leather goods units only 5%.

4.8.7 From the Table 9, it will be seen that amongst States Tamil Nadu with 62% of the total units, ranks first in the outstanding. This is so because most of the tanneries are of old vintage. After Tamil Nadu West Bengal (2) comes a distant second with 13.60%. Andhra Pradesh (2) with 7.70% and Bihar (1) with 5%. Delhi (1) has the distinction of having the lowest outstanding with 0.2% only.

4.8.8 Regarding outstanding of leather goods, Tamil Nadu (2) is 44.8%, Punjab (1) is 27.6%, Maharashtra (2) is 26%.

4.8.9 Sickness is much more predominant in tanneries than in leather goods units. States in which there is significant presence of tanneries, the outstanding are naturally high, the lone exception being Bihar in which outstanding is high compared to number of units.

4.9.1 TERM LOANS TO SICK LEATHER MANUFACTURING UNITS:

As at the end of March, 1993, term loans due from sick leather manufacturing units aggregated Rs.42.67 crores and formed 24.2 percent of the total term finance extended by Financial Institutions to leather manufacturing units. States having term loans exceeding Rs.5 crores to sick leather manufacturing units are detailed below:

TABLE - 10

| State | Rs. crores | |
|----------------|---|--------|
| | Term loans outstanding against sick units | |
| Andhra Pradesh | 9.46 | (22.2) |
| Tamil Nadu | 7.94 | (18.6) |
| Uttar Pradesh | 5.65 | (13.2) |
| West Bengal | 5.65 | (13.2) |
| Other States | 12.71 | (29.8) |
| | 42.67 | (100) |

(Figures in brackets denote percentage to total)

4.9.2 Of the total term loan Rs.42.67 crores in sick units the share of All India Financial Institution is Rs.26.47 crores or 62.03 percent.

4.10 Loans and advances to the leather manufacturing units both by the commercial banks and the term-lending institutions are summarised in the Table - 11 below.

TABLE - 11

| | | (Rs in crores) | | | | | |
|--------------|----------------|----------------|---------------|----------------|---------------|--------------|---------------|
| Sl No | STATE | TO ALL UNITS | | | TO SICK UNITS | | |
| | | BANKS | F. Is | TOTAL | BANKS | F. Is | TOTAL |
| 1. | Tamil Nadu | 539.46 | 60.01 | 599.47 | 67.36 | 7.94 | 75.30 |
| 2. | Uttar Pradesh | 133.75 | 20.21 | 153.96 | 16.46 | 6.91 | 23.37 |
| 3. | West Bengal | 82.05 | 10.62 | 92.67 | 14.59 | 5.65 | 20.24 |
| 4. | Delhi(UT) | 79.07 | 9.39 | 88.46 | 4.75 | -- | 4.75 |
| 5. | Andhra Pradesh | 14.35 | 23.49 | 37.84 | 9.21 | 9.46 | 18.67 |
| 6. | Karnataka | 73.03 | 9.62 | 82.65 | 1.47 | 3.37 | 4.84 |
| 7. | Maharashtra | 70.35 | 9.78 | 80.13 | 6.68 | -- | 6.68 |
| 8. | Punjab/Haryana | 22.57 | 12.84 | 35.41 | 0.93 | 4.81 | 5.74 |
| 9. | Rajasthan | 16.17 | 1.98 | 18.15 | 0.80 | 1.23 | 2.03 |
| 10. | Bihar | 4.87 | 1.79 | 6.66 | 4.88 | 1.79 | 6.65 |
| 11. | Madhya Pradesh | 4.31 | 6.52 | 10.83 | 3.04 | -- | 3.04 |
| 12. | Gujarat | 1.07 | 1.21 | 2.28 | 1.03 | 0.24 | 1.27 |
| 13. | Kerala | 0.59 | 3.32 | 3.91 | 0.11 | 1.27 | 1.38 |
| 14. | Other States | 1.18 | 5.19 | 6.37 | 0.02 | - | 0.02 |
| TOTAL | | 1042.82 | 175.97 | 1218.79 | 131.31 | 42.67 | 173.98 |

(F. Is - Financial Institutions)

4.11.1 Ranking of states with reference to (i) credit by banks, (ii) credit by financial institution and (iii) credit by both banks and Financial Institutions is given in Table 12 below.

TABLE - 12

| Sl No | Ranking as per Bank credit | Ranking as per Institutional credit | Ranking as per total credit by Banks/Financial Institutions |
|-------|----------------------------|-------------------------------------|---|
| 1. | Tamil Nadu | Tamil Nadu | Tamil Nadu |
| 2. | Uttar Pradesh | Andhra Pradesh | Uttar Pradesh |
| 3. | West Bengal | Uttar Pradesh | West Bengal |
| 4. | Delhi | Punjab/Haryana | Delhi |
| 5. | Karnataka | Maharashtra | Karnataka |
| 6. | Maharashtra | Karnataka | Maharashtra |

4.11.2 The states common to all the rankings in the three columns in Table 12, are Tamil Nadu, Uttar Pradesh, Karnataka and Maharashtra.

4.12.1 **OUTSTANDINGS IN SICK UNITS:**

Ranking of Banks and Financial Institutions with reference to advance to sick units is at Table 13.

TABLE - 13

| Sl No | Banks | Financial Institutions | Total |
|-------|----------------|------------------------|----------------|
| 1. | Tamil Nadu | Andhra Pradesh | Tamil Nadu |
| 2. | Uttar Pradesh | Tamil Nadu | Uttar Pradesh |
| 3. | West Bengal | Uttar Pradesh | West Bengal |
| 4. | Andhra Pradesh | West Bengal | Andhra Pradesh |
| 5. | Maharashtra | Punjab/Haryana | Maharashtra |
| 6. | Bihar | Karnataka | Bihar |

4.12.2 The states common in the rankings in all the three columns in Table 13 are Tamil Nadu, Uttar Pradesh, West Bengal, and Andhra Pradesh.

4.12.3 The only states that are common in the total advance column in both Tables 12 and 13 are Tamil Nadu, Uttar Pradesh, West Bengal and Maharashtra.

4.13.1 **GENERAL:**

The broad picture that emerges in regard to leather industry is given below:

TABLE - 14

ANALYSIS OF CREDIT DATA

| | Rs in crores | Remarks |
|---|-----------------|------------------------------|
| (i) Total credit by banks & Financial Institutions to the entire industry | 1218.79 | |
| (ii) Total bank credit to the entire industry | 1042.82 | % of (ii) to (i) - 85.56 |
| (iii) Total financial Institution credit to entire industry | 175.97 | % of (iii) to (i) - 14.44 |
| (iv) Total credit by All-India Financial Institutions | 132.02 | % of (iv) to (iii) - 75.0 |
| (v) Total SFCs credit to the entire industry | 43.95 | % of (v) to (iii) - 25.0 |
| (vi) Total credit by Financial Institutions and banks to sick units | 173.98 | % of (vi) to (i) - 14.27 |
| (vii) Total bank credit to sick units | 131.31 | % of (vii) to (ii) - 12.59 |
| (viii) Total Financial Institutions credit to sick units | 42.67 | % of (viii) to (iii) - 24.25 |
| (ix) Total credit by All India Financial Institutions to sick units alone | 26.47 | % of (ix) to (viii)- 62.03 |
| (x) Total credit by State Financial Corporations to sick units | 16.20 | % of (x) to (viii)- 37.97 |

4.13.2 An analysis of number of units assisted by both banks and institutions are given in Table 15.

TABLE - 15

ANALYSIS OF ASSISTED UNITS

| Sl No | Total no of units | non-SSIs | SSIs |
|---|-------------------|----------|------|
| a) Total number of units assisted by banks | 8645 | 355 | 8290 |
| b) Total number of units assisted by all Financial Institutions | 787 | 64 | 723 |
| c) Total number of units assisted by All-India Financial Institutions | 64 | 64 | - |
| d) Total number of units assisted by SFCs | 723 | - | 723 |
| e) Total number of sick units assisted by banks | 1040 | 81 | 959 |
| f) Total number of sick units assisted by | | | |
| (i) SFCs | 88 | - | 88 |
| (ii) All India Financial Institutions | 19 | 19 | - |
| g) Total number of units under rehabilitation by banks | 39 | 20 | 19 |
| h) Total number of units under rehabilitation in (g) in which Financial Institutions are involved | 20 | 20 | - |
| i) Total number of units closed as per banks | 162 | 26 | 136 |
| j) Non-SSIs closed out of (i) | 26 | - | - |

4.13.3 The broad conclusions that can be drawn are that out of 1040 assisted units that are sick 162 or 16% are closed and only 39 or 3.8% are under rehabilitation. While the extent of sickness in leather industry cannot said to give cause for alarm compared to other industries, the preventive and the revival efforts cannot said to be optimal. There is certainly no case for complacency and if only assisting banks and financial institutions take systematic efforts in the light of recommendations made by this Committee, the

position is bound to improve and also prevent further deterioration.

4.14 It needs to be emphasised that in many units, the causes for sickness can be more than one and it is actually so. Moreover, the different causes are inter-connected too. For example, if the main cause is bad management, the off-shoots of this will be willful default, technical problems and poor quality output. Except the exogenous factors like riots and sudden changes in government policy especially relating to imports, the onslaught of sickness could be prevented or atleast minimised by suitable prophylactic measures. Prevention of sickness requires an integrated approach involving various facets. These include proper appraisal procedures adequate and timely lending operations, monitoring by the banks / institutions on the one hand and having updated technology, proper fund management, optimum utilisation of capacity and quality assurance by the management, on the other hand.

4.15 One of the vital points which has not received as much attention as it deserves by the assisting banks and institutions in the revival / rehabilitation programme, is that generation of surplus funds by a sick unit should be large enough to meet both the interest charges on the rehabilitation loans, term loan payments and the repayment of interest and principal of the past liabilities, within a reasonable period. In other words, the cost effective manner in which a sick unit under rehabilitation has to work should be more rigorous than a similar non-sick unit. This makes it all the more necessary for banks / institutions to consider any rehabilitation proposal with the utmost expedition and provide the reliefs and concessions timely and in adequate measure.

4.16.1 The complaint against inadequate working capital has been made persistently by the borrowers. The banking system has generally been defending itself by saying that they are the best judges of working capital needs. However, when BIFR says that one of the common causes for sickness in the units that have come up before it, is inadequate working capital, the general complaint cannot be brushed aside lightly. There is general over-anxiety on the part of the bank officers that the working capital limits should be need-based, since excess provision leads to misuse or wrong use of funds. In view of this, there is a tendency on their part to be extra cautious in fixing working capital limits. This often results in the inadequacy of working capital putting the assisted unit on the threshold of sickness right from the beginning. Even under rehabilitation, when the working capital is inadequate, instead of the unit taking a turn around, it sinks further as its liabilities only increase due to increased borrowing.

- 4.16.2
(i) In this connection, the Committee has studied the recent RBI guidelines based on the recommendations of the Nayak Committee in regard to working capital requirements of SSI units. By these guidelines banks have been permitted to sanction a minimum working capital limit of 20% of the turnover. These guidelines are in the process of being implemented and it is too early to say the extent to which these guidelines would minimise problems relating to inadequacy and delay in the working capital. There is no direct linkage between the working capital requirements and the turnover of a unit. Therefore, when a uniform formula is applied, there are bound to be cases in which this formula may give a few units more than what they need as working capital and again a few other units which might be eligible only to less than what they need as working capital.
- 4.16.2
(ii) However, for a quick sanction of the limits pending detailed assessment of working capital, this is practical, since five times the working capital should be the turnover as reasonable. The guidelines referred to are applicable to SSIs only whereas the Committee is concerned with both SSI and non-SSI units. There is also an apprehension that after sanctioning the working capital, the bank officials might not take up early the review to assess the optimum working capital limits needed. When questioned about inadequacy of working capital, the bank officers might have the valid defence that since they have complied with the guidelines of RBI, they could not be faulted.
- 4.16.2
(iii) In the Committee's view, the problem of inadequacy of assessment of working capital cannot be done by mechanical application of a formula. What is needed is an appreciation of the genuine needs of a unit with reference to the manufacturing cycle, trade credit practices and optimum inventory levels of the industry concerned.
- 4.16.2
(iv) In the circumstances, the Committee would like to recommend to the RBI that even in cases in which the Nayak formula for working capital is applied, the bank should review within three months the optimum working capital needs of the unit.
- 4.16.3 One suggestion which banks could consider in regard to working capital is to sanction the working capital for the entire amount that is required for the first year's production as projected, on the basis of any formula followed by the bank. The Manager might be authorised to release working capital, progressively upto the sanctioned limit, on the basis of actual performance of the unit. This will obviate the need for the Manager to put up fresh proposals for enhancement of the working capital to his higher-ups. This procedure takes quite some time as at every stage through which the proposal passes, some query is raised. In the meanwhile, the struggling unit begins to sink and by the time, the increase in the working capital

is received, it is not in a position to make effective use of the funds for productive purposes.

4.17

The Committee would, at this stage, refer to certain other practices followed by banks/institutions, which have an adverse effect on the assisted units. The Committee would like to refer here that the ethos, practices, systems and procedures being different from bank to bank, all the points being pointed out in the following paragraphs need not apply to all banks. As it is not the convention in reports of this type to singularise any unit, the Committee has to make general observations only. The Committee is highlighting them to enable the banks/institutions where such practices exist, to change their approach in this regard.

- (i) The prices of raw material and consumables are not stable, but rise/fall due to various causes. Assisting bank quite often would not countenance increase in the working capital, to meet the increase in the input costs.
- (ii) There is a common trend in banks/institutions to adjust any additional assistance either from the assisting bank/financial institution itself or by way of grants/subsidy/concessions from external agencies in the overdues of a sick unit. The anxiety to recover as much as possible towards the past liabilities far outweighs the prudence that a sick unit should be saved at all times from a cash crunch. Such adjustment turns out to be detrimental to the assisted units and consequently to the assisting bank / institution also. This has led to a situation that whenever a Government Department like the Directorate of Industry sanctions any subsidy to an industrial unit, it insists upon, before releasing the funds, a certificate in writing from the assisting bank / institution, that the subsidy amount would not be adjusted towards current outstandings. It is needless to say that in the larger interests of both the unit and the assisting bank / institution, such adjustments should not be made.
- (iii) It is also not uncommon for banks to commence recovering the term loan instalment even before the unit reaches the break-even level. This naturally results in the accounts getting irregular and a fresh round of discussion for additional loan and reschedulement starts.
- (iv) In a new proposal the capability of the promoter has yet to be proved. One could, therefore, take an optimistic view of the future of the unit that it would succeed on the basis of a project report, which is always full of hope and promise! Secondly, whenever there is a change of guard in the branch/bank level, the units that have turned sick in the earlier regime, do not receive serious attention. RBI may have to devise a reporting system by which the attention paid to sick / weak units by the assisting bank could be reviewed at the Board level of the bank and by the RBI. As the Committee perceives, the hesitation to deal with rehabilitation schemes is for two reasons. The first is the

affairs of any sick unit will be messy and require a lot of patience, understanding and sympathy on the part of the bank. There is a lurking fear in the minds of bank managers that when their bonafide efforts to revive a sick unit fail after sometime, they may be called to account. This has a deterrent effect on the bank officers. They, therefore, play safe by not taking up rehabilitation of sick units. They are also aware that for adopting this safe position, they would not be questioned. This environment where it exists will have to be changed by the bank management by encouraging their managers:

- (i) to take seriously to the revival of sick units thereby retrieving the bank money locked up in sick units; and
 - (ii) remove the fear of the managers by not taking action against persons concerned, where bonafide rehabilitation/revival efforts have failed.
- (v) From the replies the Committee has received from banks it is seen that there has not been any systematic study to find out the causes for the wide variation between the assumptions in the project report based on which the loan was sanctioned and the actual performance. Such a study should be made systematically in every case and if all cases of an industry say, like leather, leather product, machine tool, textile, automobile ancillary are studied, it would reveal how reliable the project reports are. More importantly, the bank itself should review the project report on the basis of the experience gained in other assisted units in the same industry. The bank appraisal will thus become realistic and can avoid the pitfalls that lead to sickness in units. It would also ensure that project reports are drawn up on a very realistic basis, and not with a view to make it viable on paper for getting assistance from bank / institution.
- (vi) (a) Systematic follow-up of the end-use of bank funds appears to be more by exception than as a rule in many banks. One of the defences of bankers to this is that it is not for banks to run assisted units, but for the borrowers to run the units efficiently. True enough, but at the same time the primary duty of a bank, as custodian of public deposits is to safeguard these funds by ensuring that the loan amounts are utilised for the purpose for which they have been sanctioned. Further, bank as a commercial organisation will have to ensure that it works at a profit. Had these primary duties been discharged properly, there could not have been large scale diversion of funds by assisted units. The Committee, therefore, considers that continuous, effective monitoring of units is necessary.
- (b) While on the question of diversion of funds, banks generally deal with all types of diversion by freezing the accounts, thereby bringing production to a halt. There are basically two categories of diversion of funds. In one category the borrower diverts the working capital for

private ends, say to complete his house or to meet his daughter's marriage expenses. In the other category, the borrower diverts working capital to buy some capital asset for the unit for increasing or stabilising production. For example, fund is diverted to buy a generator to meet shortage of power or to buy a balancing equipment to optimise production. This is necessitated because the process of getting term loan from the bank is quite time consuming and in the meanwhile, production is affected. Diversion for totally non-productive and personal purpose as in the first category and diversion of funds for acquiring capital asset for the unit for increasing production as in the second category, are qualitatively different. While not justifying the diversion of funds as such, when working capital has been diverted to acquire an asset and improving production, the irregularity should be regularised without choking flow of funds to the unit. In the case of diversion of funds for private ends, the bank should come down heavily upon the borrower. The Committee would like to reiterate that if there be effective monitoring, diversion of funds cannot take place so easily as of now.

- (vii) One of the common practices adopted by units when they are short of funds is to inflate the value of inventory. Even the statutory auditor does not physically verify the inventory but relies on the verification of stock-in-trade, stores and spare parts and raw materials as certified by the management during the period. When the inventory is doctored, the balance sheet and profit and loss accounts cannot be said to give a true and fair view of the affairs of the company / firm. The Committee will strongly advise that in respect of leather and leather goods units, there should be a cent per cent stock verification by a leather technologist before extending assistance to a sick unit. A leather technologist is suggested as he will be in a position to assess whether the price paid for the hides / skins, semi-finished and finished leather, WIP and finished goods are commensurate with their quality. Similarly, one of the effective ways of knowing the health of an assisted unit is to have a hundred percent verification of stock every half year. The money spent on such verification is well spent as it will alert the assisting bank / institution in good time, if all is not well within the unit. This will help the bank / institution to take quick remedial measures.

AS ON 31st MARCH 1993 MAJOR CAUSES FOR SICKNESS IN LEATHER MANUFACTURING UNITS AS REPORTED BY BANKS

| Sl No | Category of Banks | No. of Sick units | | | Major causes for sickness (no. of units) | | | | | | | | |
|--------------|--------------------------------------|---------------------|------------|-------------|--|------------|--------------------------|---------------------------------------|----------------------|-------------------------------------|----------------------------------|---------------------|--|
| | | Non-SSI (Sick/Weak) | SSI (Sick) | Total | No. under rehabilitation | No. closed | Management short-comings | Diver- sion of funds/ willful default | Marke- ting problems | Outside factors (fire, riots, etc.) | Tech problems - low produc- tion | No reasons reported | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | |
| 1. | State Bank of India & its Associates | 19 | 761 | 780 | 14 | 34 | 19 | 13 | 16 | - | 1 | 731 | |
| 2. | Nationalised banks | 60 | 178 | 238 | 23 | 124 | 49 | 38 | 67 | 13 | 7 | 64 | |
| 3. | Private sector banks | 1 | 18 | 19 | 2 | 2 | 1 | 3 | 6 | - | 1 | 8 | |
| 4. | Foreign bank branches in India | 1 | 2 | 3 | - | 2 | 3 | - | - | - | - | - | |
| TOTAL | | 81 | 959 | 1040 | 39 | 162 | 72 | 54 | 89 | 13 | 9 | 803 | |

MAJOR CAUSE FOR SICKNESS AS REPORTED BY THE FINANCIAL INSTITUTIONS

ANNEXURE - II
(Chapter 4.5.3)

| Sl No | Category of Financial Institutions | No. of sick units (Non-SSI & SSI) | Of which under rehabilitation | No. closed | Major causes for sickness (no of units) | | | | | | |
|--------------|--|-----------------------------------|-------------------------------|------------|---|--------------------------------------|----------------------|-------------------------------------|-----------------------------------|----------------------------------|---------------------|
| | | | | | Management short-comings | Diver- sion of funds/ wilful default | Marke- ting problems | Outside factors (riots, fire, etc.) | Tech. problems (low produc- tion) | Lack of adequate working capital | No reasons reported |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 1. | All-India level Financial Institutions (IDBI, IFCI & ICICI) | 15 | 6 | 7 | 8 | - | 6 | - | - | 1 | - |
| 2. | Industrial Reconstruction Bank of India | 4 | 3 | - | <--- | - | - | - | Not Given | - | - |
| 3. | State Finance Corporations (Andhra Pradesh, Tamil Nadu, West Bengal, Bihar, Gujarat Karnataka) | 88 | 11 | 19 | 14 | 1 | 8 | - | 1 | 9 | 55 |
| TOTAL | | 107 | 20 | 26 | 22 | 1 | 14 | - | 1 | 10 | 55 |

CHAPTER - 5

INDUSTRIAL SICKNESS, ITS PREVENTION AND EARLY IDENTIFICATION

5.1 PREVENTION OF SICKNESS :-

A divergence always exists between the project projections based on which the working capital and term loan are initially sanctioned and the actual performance of a unit. The only variation is the degree of divergence. Very rarely does the commercial production of a unit start on the date assumed in the project report ; nor does it reach capacity utilisation as envisaged in the project report. Further, till the unit reaches the break-even point, it will not be able to service its loans. The result is that the unit faces a cash crunch right from the start. In order to get over the problem of cash crunch the unit is driven to adopt a number of unhealthy and devious practices. Thus the seed for sickness is sown right in the beginning. These unhealthy practices may give respite for a short time, but eventually the unit gets into a mire from which it finds that the more it tries to extricate itself, the deeper it sinks. It is time that certain basics are recognised. A unit will be able to service its liabilities regularly only after it reaches the break-even point. This fact has been recognised in statutory welfare measures of workers like EPF and ESI by providing that these benefits would accrue only after the unit has put in a minimum number of years of existence. During the intervening period before a unit reaches a break-even point, it can only partly pay its liabilities. If the bank adjusts its dues, then the unit will not be able to pay its statutory liabilities. Non-payment of statutory liabilities would affect the working of the unit, and eventually jeopardise the realisation of loans by the bank / institution, leading to sickness and ultimately reach a point of no return.

5.2 The contradiction is that when the surplus realisation of a unit is at its lowest, the outgo is at its highest. Taking this reality into account, the funding of projects will have to be done and repayment terms settled in a realistic manner. Normally, the break-even level in production will be reached between 18 to 24 months after commencement of production. For any project, the first six months is a period of testing trouble. A unit will begin stabilising its production in the next twelve months. Thus, during the crucial eighteen months invariably the surplus generated will be inadequate to meet all the liabilities. Recognising this fact, in respect of term loan, there should be an initial holiday for twelve months in regard to instalment payment. This should be followed by 25 % payment of the normal instalment of term loan for 6 months and 50%

payment of the normal instalment of the loan for another six months. At the end of a two-year period, the earlier dues to instalments could be collected in another 2 years time. At the commencement of the fifth year, the unit will be on even keel.

5.3.1 As regards interest payment, as it cannot be expected to be met out of generation from the unit, an alternative method has to be thought of.

5.3.2 While estimating the project cost, apart from funds needed for acquiring fixed assets, auxiliaries, provisions are made for :- (i) pre-operative expenses which include interest during construction period ; (ii) contingencies ; and (iii) margin money at 25% of the working capital for the first year.

5.3.3 The promoter has to bring in as his contribution, 25% of the project cost and the institution lending as medium term loan the 75% of the project cost. The Committee's suggestion is that the interest on working capital and term loan for the first 12 months of production should be added on to the project cost. This can be done by increasing the margin amount to 37.5% of the working capital. To the objection that the project cost gets increased, the answer would be that the unit is protected from infant mortality and to the institution it is an insurance against adverse effects consequent to cash crunch faced by the unit. The increase in the total project cost itself is not likely to be very high, of which 25% of the additional requirement would be brought in by the promoter.

5.3.4 When a unit is closely monitored as suggested by the Committee, and the Monitor advises the bank that due to unexpected developments, reaching of break-even level has been delayed and the unit is still viable, the institution without avoidable delay could reschedule the repayment of instalments after satisfying itself about the viability of the unit.

5.4 EARLY IDENTIFICATION OF SICKNESS:

Sickness in an industrial unit has been defined both by the RBI and IDBI from time to time. There appears to be a prevalent view in banks and institutions that a unit is entitled for consideration of reliefs and concessions only if it satisfies the definition of a sick unit. When a unit has become sick as per the definition of RBI / IDBI it is almost in the terminal stage of existence and its revival / rehabilitation becomes an uphill, if not, an impossible task. Any bank or institution should closely monitor the assisted units so that even as signs of incipient sickness surface, effective remedial action is taken up well in time.

By waiting for the unit to satisfy the definition of a sick unit before extending concessions / reliefs, the chances of revival diminish. By delaying relief and concessions, the lender cannot be said to have taken timely steps to protect his endangered funds before it is too late.

5.5 Banks entertain the apprehension that by extending concessions / reliefs, their profitability may get eroded. On the other hand, if timely assistance is not given to a sick unit, the entire loan amount gets into jeopardy, with practically no hope of reviving the unit. It is needless to say that this repayment schedule of duration and quantum should be such as to enable the unit not to face cash crunch by such repayment. This positive approach by the bank may make chances of revival much higher than breathing life into an almost dead unit belatedly and that too by fits and starts.

5.6 The Committee suggests that when a unit defaults even once in meeting either its statutory dues / or interest to banks / or institution / or instalment payment to financial institutions, it requires attention, and that too quickly. The quicker the assisting bank / institution intervenes in such a situation, greater are the chances of stemming the rot.

5.7 MEASURES TO TACKLE PROBLEMS FACED BY EXPORTING UNITS TO ERSTWHILE USSR COUNTRIES:

5.7.1 Indian leather industry has built up a close and mutually profitable commercial relationship with USSR through export of leather and leather goods. The sudden disintegration of USSR had upset many export companies which had built up long and enduring relationship with USSR. The serious problems thus created are putting these units on the threshold of sickness and may ultimately threaten their very survival. The exporters to the erstwhile USSR feel that there has been no recognition of the good work done by them in export for reason that when they are in acute distress for no fault of theirs, they have not received timely succor.

5.7.2 When such international crisis develops all of a sudden, it does take a little time for things to settle down before our Government and other Government could establish a dialogue to sort out problems. The Committee understands that an internal committee of RBI headed by one of its Deputy Governors and Members drawn from GOI and banks, has been looking into the problems faced by Indian exporters who had exported to erstwhile USSR and who had not been able to get payments therefor under the existing arrangements, with a view to make settlements of transactions (exports and non-exports) between the erstwhile USSR parties and Indian parties.

5.7.3 The representative of exporters to Russia and CIS countries who had met the Committee, highlighted their sufferings and suggested early measures of amelioration.

5.7.4 The Committee, taking note of the genuine problems faced by these exporters due to developments under force-majure conditions, recommends the following measures for the consideration of RBI:

- i. When recoveries are pending for more than 180 days, the banks normally charge higher rate of interest for a period between 180 days to 360 days and penal interest after 360 days. In the case of exports to erstwhile USSR states, when there are delays of more than 180 days for no fault of the customer the same rate of interest sanctioned originally should be charged without additional/penal rate of interest, till the bills are realised.
- ii. The present Exchange Control Regulations stipulates realisation of export proceeds within 180 days from the date of shipment. Considering the genuine difficulties being experienced by exporters to Russia and other CIS regions in repatriating export proceeds within the stipulated 180 days. It has been suggested that Reserve Bank of India may grant general permission to the authorised dealers to hold the outstanding GRI forms upto 360 days, whereafter specific approvals may be granted on merits of the case. RBI is requested to consider this suggestion in the light of the possible repercussions it may have on all exports in general.
- iii. The export units which had created special infrastructure for their exports to USSR, had built up inventories to meet the expected further exports. The sudden developments in USSR have upset their expectations and they have been unable to process subsequent exports. Taking into consideration the circumstances that have led to this development, the Committee recommends that banks should be advised to consider converting the advances against such inventories into a "Blocked Term Loan" at a concessional rate of interest, repayable over a period of 3 years, out of realisations from export to take place in future to new areas.
- iv. Entire trade between India and Russia & other CIS regions, except transactions under state credit repayment mechanism of RBI, are to be conducted in free foreign currency or US \$ etc. There exists a permanent market for Indian goods in countries which formed part of USSR and vice-versa. Majority of Russian importers however, are not in a position to pay in US \$ or any other hard currency. But they have access to very valuable materials / commodities which they can and are willing to barter against imports from India. Export of raw hides / skins from the other side, against import or value added leather goods from India is one such case. RBI no doubt

has permitted the conduct of such barter through the mechanism of Escrow A/c, which as per existing regulations require that :-

- a. Russian exporters obtain a permission from their Central Bank to conduct Escrow A/c transactions with Indian parties ;
- b. Russian exporters build up credit balances in the Escrow A/c by first exporting their materials.
- c. Indian exporters get paid out of the credit balances in Escrow A/c.
- v. It is understood that very small business is being conducted through the Escrow A/c mechanism. This is perhaps because the Russian parties consider that the above provisions are one-sided and heavily loaded in favour of the Indian side.

5.7.5 Many of the exporters with long standing in the former USSR market who met the Committee expressed the view that they are in a position to generate substantial two-way business provided the barter mechanism is so designed as to be make the overseas parties that the arrangements is fair and equitable to both sides.

- It is for the consideration of RBI to allow Indian parties to export first and generate balance in there own favour to pay for the subsequent imports from Russia and other CIS regions.
- Authorised dealers to set off the Indian exports against Russian (CIS) imports as per the Indian Import Export Policy and release GRI forms appropriately after matching them in the aggregate with the custom's Bill of Entry evidencing the corresponding imports from Russia/CIS.

5.7.6 The units exporting hitherto to USSR are in danger of losing the market now. Their 30 to 40 year's experience should not be allowed to go waste. More importantly, these exports units should not be allowed to slide down into sickness in the near future. RBI may advises the banks to consider rescheduling of the packing credit / post-shipment dues, into term loans at concessional rates of interest.

CHAPTER - 6

MONITORING OF INDUSTRIAL ADVANCES

6.1 To the specific point on monitoring arrangement raised in the questionnaire addressed to them, many banks have reported that they have a monitoring arrangement to oversee the lending to their assisted units and special monitoring arrangements for sick units under revival. The Committee did not have the opportunity of evaluating the efficacy of any of the monitoring systems, by taking up specific cases at random. While the Committee is happy that every bank has stated that it has instituted a monitoring system, the fact that industrial sickness has not abated but is on the increase, points out that the existing system should be more finely tuned so that its effectiveness and efficacy may considerably improve.

6.2 Monitoring has unfortunately developed a derogatory connotation since there is a general mis-conception that monitoring is intended only for a sick unit. When a unit is subjected to monitoring, the unit feels that its amour-propre has been hurt. It is time that this wrong view is changed. There is nothing derogatory to the unit when the assisting bank arranges for monitoring the end-use of money borrowed by it and keeps a watchful eye whether the unit is being managed in a way that there is no risk for the money lent by it. A statutory auditor audits the accounts of a company on behalf of the shareholders who have put in the risk capital. This is not considered derogatory. An internal auditor is appointed by the management to point out the deviations in the prescribed procedures at various levels and to report them to the Management. This is not considered derogatory. Every term lending institution incorporates as one of the conditions of lending, that the institution has a right to nominate a Director on the Board of the assisted company to watch the interests of the institution. This is now a practice accepted without demur by the assisted units of financial institutions. The stake of the assisting bank in a company is more than the combined stake of the share - holders. This includes the promoter's contribution also. The assisting bank to safeguard its interest and more as a measure of prudence, should include as a condition of working capital, when the total sanctioned working capital limits exceed Rs. 50 lakhs that the bank will have a right to monitor the working of the assisted units.

Monitoring is not intended to be a faultfinding exercise, nor for breathing down the neck of the assisted unit. It is meant to bring about a good rapport between the assisting bank and the assisted unit. Monitoring provides the frame - work for continual interaction between the assisting and the

assisted and when properly worked, would be to the mutual advantage of the bank and the institution.

6.3 Monitoring the performance of a manufacturing unit through paper work does not really give a true picture of the health of the unit to the bank / institution. All said and done, even a bunch of voluminous reports cannot give a good feel of the reality of the situation of a unit as a visit to the factory does, particularly a visit without prior notice. During a visit, the tidiness of the factory premises and its precincts, the condition of machinery, house keeping, the condition of the raw material store and finished goods store, the segregation of WIPs, and the general demeanour and attitude of workers and their supervisors will give a good picture of the health of the unit.

The Committee, therefore, advises that in respect of both new units and units under rehabilitation, periodical visits to the factory on behalf of the assisting bank and institution atleast once a month is a must. The very fact that there is such a periodical visit would make the units to sit up and try to spruce up things.

6.4 When a bank / institution appoints an outside agency for monitoring, it is generally a Chartered Accountant. This is done in the belief that a critical and continual watch of the financial transactions of the assisted unit can by itself plug the leakages and improve the performance of a unit. In the case of a unit under rehabilitation this kind of monitoring does not take note of the factors which control and influence the profitability of the unit. Some of these factors are: quality of raw material being commensurate with its price, the reasonableness of the spread between input costs and output realisations, cost reduction measures like reduction in rework and rejection. The Committee considers that a leather technologist with a short re-orientation programme could do monitoring more effectively.

6.5.1 The Committee would suggest that all assisted units should send the following basic reports to the bank / institution on or before 5th of the following month.

6.5.2 A unit during the construction stage should send a monthly report in Form 'A' indicating the status of the setting up of the factory. The format is as follows:

FORM 'A'

**MONTHLY REPORT BY THE ENTREPRENEUR ON HIS UNIT
DURING THE CONSTRUCTION STAGE**

Report for the month of :

1. Name of the Unit :
2. Location of the Factory :
3. Product Manufactured :
4. Loan amount sanctioned :
5. Date of sanction of Loan :
6. Details of Plant and Machinery :

i. Actually installed :-

| Description | Price | Supplier's Name | Date of supply | When installed |
|-------------|-------|-----------------|----------------|----------------|
| 1 | 2 | 3 | 4 | 5 |

ii. Yet to arrive :

| Description | Price | Supplier's Name | Date of supply | When expected to be installed |
|-------------|-------|-----------------|----------------|-------------------------------|
| 1 | 2 | 3 | 4 | 5 |

7. a. Has power connection been secured ?
b. If not, when expected ?
8. Details of supervisory and skilled staff already in position ?
9. Specify the date by which commercial production is expected?
10. Any difficulties faced ?

6.6 Once the production starts, a monthly report as in Form B below should be obtained from the unit by the bank / institution.

FORM 'B'

MONTHLY REPORT AFTER PRODUCTION HAS COMMENCED

Report for the month of :

1. Name of the Unit :
2. Location of the Factory :
3. Product Manufactured :
4. Monthly capacity of the Unit :
5. Break even capacity :
6. Monthly capacity achieved: Current Previous
 month month
7. Electricity dues payment : paid / not paid
8. Statutory dues payment :-
 - i. EPF paid / not paid
 - ii. ESI paid / not paid
 - iii. Sales Tax paid / not paid
 - iv. Excise Duty paid / not paid
9. Rental / hire purchase instalment for the building : paid / not paid
10. Interest payment to bank : paid / not paid
11. Instalment payment to Institution. : paid / not paid
12. Order Book on hand :
13. Raw materials on hand : Description/value
14. WIP : Description/value
15. Finished stock on hand : Description/Value
16. Difficulties, any, faced :

6.7 The Committee considers that every unit should regularly submit a few reports before the 5th of a month. The following are the reports whose formats are in the Annexure to this report.

- i. A monthly report on production performance in Form PF.
- ii. A fortnightly stock statement as in Form FN to give an idea

to the assisting bank / institution whether the inventory held is commensurate with the order on hand.

iii. A Cost Realisation statement for the month in CR Form to give the financial results for the month, showing sales realisation, input costs, gross profit and profit before tax after interest but before depreciation. It is quite possible that similar reports have been prescribed by banks / institutions. If need be, the existing reports could be suitably modified. More important are :-

- a. It should be ensured that such reports come regularly from the unit.
- b. The recipient of the report should find time to go through the reports.

6.8 For many reasons, the main amongst them being paucity of staff, regular monitoring of assisted units by systematic factory visits by bank staff is not a regular feature. The Committee would, therefore, suggest that the monitoring of assisted units should be entrusted to an outside monitoring agency, a leather technologist preferably, and if he is not available, to any engineer, graduate in engineering or licentiate with industrial experience. To do effective monitoring a good knowledge of the production process of the industry is necessary. A monitor should be able to identify the critical factors that affect the viability of a unit viz. whether the price of raw material and consumables and selling price of finished product are all commensurate with quality, check the percentage of rejection, rework, accumulation of WIP.

6.9 The Committee would call the outside consultant to be engaged as 'Monitor'. His job is to visit the units assigned to him to see how the unit is working and also ensure that the unit sends the prescribed reports to the bank / institution. He will act as the eyes and ears of the assisting bank / institution for that unit. The Monitor within three days of visit, surprise or otherwise, should submit to the bank / institution a report in Form 'C'. This will give the earliest signal to the bank / institution when a unit is not doing well.

FORM 'C'

PART A

Report on visit to :

Date :

Time of visit:

1. Name of the Unit :
2. Location of the Factory :
3. Date of establishment :
4. Product Manufactured :

PART B

Impressions gained at the time of the visit

1. Was the unit working ? Yes / No
2. i. What is the installed capacity ?
ii. What is the break-even capacity ?
iii. What is the production achievement ?
3. i. How many machines were working ?
ii. How many of them were not working ?
4. No. of employees at the time of visit :-
 - i. Supervisors.
 - ii. Skilled Workers
 - iii. Others.
5. How was the shop floor ? Tidy/Haphazard/Dirty
6. i. Was power available at the time of visit ? Yes / No
ii. Is water available for the unit ? Yes / No
iii. Has the unit sufficient raw material, etc? Yes / No
iv. Is there accumulation of finished stock ? Yes / No
7. Order on hand Previous month / This month
8. Arrears of statutory dues ?
 - i. EPF
 - ii. ESI
 - iii. Sales Tax
 - iv. Excise Duty
9. Special problems that come to notice during the visit.
10. General impressions about the unit :-
 - a. Doing well
 - b. Managing to survive
 - c. In trouble
 - d. In deep trouble

6.10

In order to ensure systems in planning, production and follow-up, the Committee considers that a sick unit under rehabilitation prepare rolling monthly budgets for three months at a time on sales, production, purchase and cash. For example, in the month of October, the budgets for November, December and January should be prepared. On the 5th of the following month, say in December, for the month of November, the actual performance in November should be compared with the budget. Based on that analysis for November, earlier budgets for December, January if need be revised and budget should be prepared for February. This exercise when repeated every month has the following advantages :-

- i. In the preparation of these budgets the different sections of the unit being involved, everyone knows the target towards which the unit should work.
- ii. In the preparation of the budgets, the concerned section heads are involved. They would, therefore, know where they had gone wrong when the monthly performance against the budget is reviewed.
- iii. The assisting bank / institution gets an indication of the assistance required.
- iv. As the release of bank funds will be based on these budgets, the assisting bank / institution has a continual tab on the health of the unit.
- v. The most important aspect is that ad-hocism in decision making is replaced by planned decision, with the result that the profitability could be anticipated. The Monitor should sit with the management of the unit in the preparation of these rolling budgets and send his recommendation to the assisting bank / institution on the rolling budgets separately.
- vi. Any request from the unit for funds over and above the amount provided in the budget in the middle of a month, should be routed through the Monitor, who will offer his comments.

6.10.1

The proforma of the rolling budgets and their monthly review formats are given in the Annexure for Tanneries. For the leather products / goods, it should be possible to draw up suitable proformas on the same basis.

The following proformas are at the Annexure :-

- a) Sales Budget in Form S, and corresponding monthly review in Forms S1.
- b) Production budget in Form PR, and corresponding review in Form PR1.
- c) Purchase Budget in Form P

will give the monthly estimation of quantities and value of raw materials, chemicals, consumables, stores to be required each month for three consecutive months at a time and the monthly performance reviewed as in Form P1.

6.10.2 Cash Budget Form 'C'

This will show the monthly figures for three consecutive months at a time, showing receipts under specified heads, payments under specified heads, gross cash generation, net cash after interest and balance after instalment payment. Form 'C' will compare the performance with the budget.

6.10.3 The Committee would suggest that each bank may try this Monitoring arrangement as an experimental measure for a group of four or five units located in a compact area, that could be covered by a Monitor.

6.10.4 The Monitor should be given some training on monitoring. The monthly compensation should be attractive enough, with the actual travel expenses being reimbursed. If an institution is also involved, the sharing of the expenses of the Monitor between the bank / institution should be in the ratio of the funds of the bank / institution involved in the unit.

6.10.5 As stated elsewhere in the report, the unit under rehabilitation has to be very cost conscious and its working very cost effective, to generate sufficient surplus to meet the current and old liabilities. The bank / institution should ensure that the unit does not face cash crunch at any time. This requires a continual and effective monitoring. In the Committee's view, the only course is to institute the monitoring as suggested and this monitoring arrangement should be specified as one of the conditions of revival / rehabilitation. Such monitoring has also the long term effect of improving the quality of entrepreneurship.

ANNEXURE

(Vide Para 6.10.1)

Form PF

**PRODUCTION PERFORMANCE
M O N T H L Y R E P O R T
TANNERY**

INSTALLED CAPACITY

- i. Hides**
- ii. Skins**
- iii. Splits**
- iv.**

I OPERATIONAL DATA

| | Current Month | Previous Month |
|--|--------------------------|---------------------------|
| 1.a. No. of skins processed | | |
| Total Sq.ft. | | |
| b. No. of hides processed | | |
| Total Sq.ft. | | |
| c. No. of Wet Blue Goat Processed | | |
| Total Sq.ft. | | |
| d. No. of Wet Blue, Cow & Buff Processed. | | |
| Total Sq.ft. | | |
| 2. Total No. of days worked. | | |
| 3. Average No. of Workers employed | | |

II PARTICULARS OF OUTPUT

| Skins | % to total | |
|--------------------|-------------------------------|-----------------------------------|
| | For the month under review | Actuals for the previous month |
| i. Aniline | | |
| ii. Gloving | | |
| iii. Lacquer Upper | | |
| iv. Printed Upper | | |
| v. Glaze Kid | | |
| vi. Normal Sandal | | |
| vii. Lining | | |
| viii. Rejections | | |

| Hides | % to total | |
|------------------|-------------------------------|-----------------------------------|
| | For the month under review | Actuals for the previous month |
| ABC | | |
| DEF | | |
| GH | | |
| Lining | | |
| Rejection | | |
| Double Rejection | | |

| | |
|-------------------------------------|---|
| 4. Average production in a day. | <u>Total output in Sq.ft</u> No of days. |
| 5. Average production per worker | <u>Total output in Sq.ft</u> No. of workers. |

Form PF(Cont.)

| For the month under review | | Actuals for the previous month | |
|-------------------------------|-------------------------------|-----------------------------------|-------------------------------|
| <u>Rs.</u> Sq. ft. | Average price / Sq. ft. | <u>Rs.</u> Sq. ft. | Average price / Sq. ft. |
| 1 | 2 | 3 | 4 |
| | | | |

SALES

- i. Gloving
- ii. Lacquer Upper
- iii. Printed Upper
- iv. Glaze Kid
- v. Normal Sandal
- vi. Lining
- vii. Rejections

TOTAL SALES

- i. Domestic / Sq.ft.
- ii. Export / Sq.ft
- iii. Transfer

TOTAL SCRAP SALES

- i. Splits Kgs/Sq.ft
Average price
- ii. Others Kgs/Sq.ft
Average price

TANNERY

COST AND REALISATION

(Rs. in '000s)

| For the month | | For the previous month | |
|---------------|-----------------|------------------------|-----------------|
| In Rs. | % of total Cost | In Rs. | % of total Cost |

A. Sales Realisation :-

- a. Product
- b. Incentives
- c. Sale of by products
- d. Sub-total
a+b+c

Less : Sales
Commission

B. Raw Materials :-

1. a. Hides
 - b. Skins
 - c. Wet Blue
2. Chemicals
3. Stores & Cons
4. Power & Fuel
5. Repairs & Maintena
6. Wages & Benefits
7. Depreciation
8. Sub-total
(1 to 7) 'B'

| Form CR (Contd) | | | |
|-----------------|-----------------|------------------------|-----------------|
| For the month | | For the previous month | |
| In Rs. | % of total Cost | In Rs. | % of total Cost |

C Gross Profit
(A-B)

D i. Salary & Benefits

ii. Adm. Expenses

iii. Selling Expenses

iv. Selling Commission

v. Sub-total
(i to iv) 'D'

E Interest

a. Funded Interest

b. Term Loans

c. Working Capital

d. Others

e. Sub-total
(a to d) 'E'

F Total of D+E

G Profit Before Tax
C-F
(Surplus or deficiency)

FN Report

(Every Fortnight)

STOCK STATEMENT AS ON :

(Rs. in '000s)

| | Current Month | | Previous Month | |
|-----------------------|-----------------|--------------|-----------------|--------------|
| | Quantity | Value Rs. | Quantity | Value Rs. |
| | 1 | 2 | 3 | 4 |
| | Nos. Sq. ft. | | Nos. Sq. ft. | |
| A Raw Yard | | | | |
| Skins | | | | |
| Cow | | | | |
| Buff | | | | |
| B Tanning Yard | | | | |
| Skins | | | | |
| Cow | | | | |
| Buff | | | | |
| C Dye House | | | | |
| Gloving | | | | |
| Upper | | | | |
| Sandal | | | | |
| Lining | | | | |
| D Crust Yard | | | | |
| Upper | | | | |
| Glaze Kid | | | | |
| Sandal | | | | |
| Lining | | | | |
| Buff | | | | |
| Cow | | | | |
| Glovi | | | | |

1

2

3

4

E. Finishing Yard.

Gloving

Glaze Kid

Sandal

Lining

Cow

F Splits-Agewise

a.

b.

c.

d.

**G Warehouse
(Agewise details)**

Glaze Kid

a.

b.

c.

d.

Gloving

a.

b.

c.

d.

1

2

3

4

Upper

a.

b.

c.

d.

Sandal

a.

b.

c.

d.

Lining

a.

b.

c.

d.

Suede

a.

b.

c.

d.

Sheep

a.

b.

c.

d.

FN Report (Contd)

1 2 3 4

**Buff/Buff light/
Buff calf**

- a.
- b.
- c.
- d.

**Cow/Cow light/
Cow calf**

- a.
- b.
- c.
- d.

Note : To be given agewise

- a. less than 3 months
- b. 3 to 6 months
- c. 6 to 12 months
- d. 12 months and above

SUMMARY

(Rs. in '000s)

**Current Month
in Rs.**

**Previous Month
in Rs.**

Raw Yard

Tanning Yard

Dye House

Crust Yard

Finishing Yard

Warehouse

Splits

TOTAL

THREE MONTHLY ROLLING BUDGET

SALES BUDGET

| Description of the Product | 1st Month | | 2nd Month | | 3rd month | | Remarks |
|----------------------------|-----------|----------------------|-----------|----------------------|-----------|----------------------|---------|
| | Quantity | Sale Value in Rs. | Quantity | Sale Value in Rs. | Quantity | Sale Value in Rs. | |

- 1
- 2
- 3
- 4
- 5

MONTHLY PERFORMANCE - SALES BUDGET

(Rs. in '000s)

| Customer's Name | Description of the product | Budget | | Actuals | | Remarks |
|--------------------|-------------------------------|-------------------|--------------------------|-------------------|--------------------------|---------|
| | | Total Quantity | Total value in Rs. | Total Quantity | Total value in Rs. | |
| 1 | a. | | | | | |
| 2 | b. | | | | | |
| 3 | c. | | | | | |
| 4 | d. | | | | | |
| 5 | e. | | | | | |

THREE MONTHLY ROLLING BUDGET

PRODUCTION BUDGET

| Description of the Product | 1st Month | | 2nd Month | | 3rd month | | Remarks |
|----------------------------|-----------------|-------------------|-----------------|-------------------|-----------------|-------------------|---------|
| | Quantity Needed | Tot. Value in Rs. | Quantity Needed | Tot. Value in Rs. | Quantity Needed | Tot. Value in Rs. | |

Raw Material

- 1
- 2
- 3
- 4

Chemicals

- a.
- b.
- c.

Consumables

- i.
- ii.
- iii.

Stores

- 1
- 2
- 3

Grinderies

- a.
- b.
- c.

MONTHLY PERFORMANCE - PRODUCTION BUDGET

(Rs. in '000)

| | | Budget | | Actuals | | |
|---------------|-------------|----------|--------------------|----------|--------------------|---------|
| Raw Materials | Description | Quantity | Total Value in Rs. | Quantity | Total Value in Rs. | Remarks |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Raw Material

- 1
- 2
- 3
- 4

Chemicals

- a
- b
- c

Consumables

- i.
- ii.
- iii.

Stores

- 1
- 2
- 3

Grinderies

- a.
- b.
- c.

THREE MONTHLY ROLLING BUDGET

PURCHASE BUDGET

| 1 | 1st Month | | | 2nd Month | | | | 3rd Month | | | | Remarks 5 |
|---------------------|-----------|---|---|-----------|----|----|----|-----------|----|----|----|--------------|
| | 2 | 3 | 4 | 1A | 2A | 3A | 4A | 1B | 2B | 3B | 4B | |
| Raw Material | | | | | | | | | | | | |
| 1 | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | |
| 3 | | | | | | | | | | | | |
| 4 | | | | | | | | | | | | |
| Chemicals | | | | | | | | | | | | |
| a. | | | | | | | | | | | | |
| b. | | | | | | | | | | | | |
| c. | | | | | | | | | | | | |
| Consumables | | | | | | | | | | | | |
| i. | | | | | | | | | | | | |
| ii. | | | | | | | | | | | | |
| iii. | | | | | | | | | | | | |
| Stores | | | | | | | | | | | | |
| 1 | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | |
| 3 | | | | | | | | | | | | |
| Grinderries | | | | | | | | | | | | |
| a. | | | | | | | | | | | | |
| b. | | | | | | | | | | | | |
| c. | | | | | | | | | | | | |

Legend

- I. 1,1A,1B Estimated Quantity Required.
- II. 2,2A,2B Quantity in stock.
- III. 3,3A,3B Net Quantity to be purchased.
- IV. 4,4A,4B Value of column 3 in Rs.

MONTHLY PERFORMANCE - PURCHASE BUDGET

(Rs. in '000s)

| Raw Material | Requirement | Available in stock | Budget | | Actuals | | Remarks |
|--------------|-------------|-----------------------|------------------------|-----------------|--------------------------|-----------------|---------|
| | | | Net to be purchased | Value in Rs. | Net actuals purchased | Value in Rs. | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |

Raw Material

- 1
- 2
- 3
- 4

Chemicals

- a.
- b.
- c.

Consumables

- i.
- ii.
- iii.

Stores

- 1
- 2
- 3

Brinderies

- a.
- b.
- c.

CASH BUDGET
(Three monthly)

Form C
(Rs. in '000s)

| | <u>Months</u> | | |
|--|---------------|---|---|
| | 1 | 2 | 3 |
| A. Receipts | | | |
| i. Cash Receipts | | | |
| ii. Credit Sales Realisation | | | |
| iii. Other Revenue (Incentives) | | | |
| iv. Sales of Scrap | | | |
| B Total Receipts | | | |
| C Payments | | | |
| a. Raw Material | | | |
| 1 | | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| b. Chemicals | | | |
| a. | | | |
| b. | | | |
| c. | | | |
| c. Consumables | | | |
| i. | | | |
| ii. | | | |
| iii. | | | |
| d. Stores | | | |
| 1 | | | |
| 2 | | | |
| 3 | | | |

Form C (Contd)

| | <u>Months</u> | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| D | Wages | | |
| E | Salaries | | |
| F | Power & Fuel | | |
| G | Repairs & Maintenance | | |
| H | Rates and Taxes | | |
| I | Statutory Payments | | |
| J | Bank Charges | | |
| K | i. Travelling & Conveyance | | |
| | ii. Telephone | | |
| | iii. Stationery | | |
| | iv. Postage | | |
| | v. Misc. Expenses | | |
| L | Total Payment (B to K) | | |
| M | Gross Cash Generation (B to L) | | |
| N | Interest on borrowings | | |
| O | Net Cash (M to N) | | |
| P | Instalment Payment | | |
| Q | Balance after Instalment Payment (O-P) | | |

REVIEW OF CASH BUDGET

Form C1

For the Month of

(Rs. in '000s)

| | Budget | Actuals | Remarks |
|--|---------------|----------------|----------------|
| A. Receipts | | | |
| i. Cash Receipts | | | |
| ii. Credit Sales Realisation | | | |
| iii. Other Revenue (Incentives) | | | |
| iv. Sale of Scrap | | | |
| B Total Receipts | | | |
| C Payments | | | |
| a. Raw Material | | | |
| 1 | | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| b. Chemicals | | | |
| a. | | | |
| b. | | | |
| c. | | | |
| c. Consumables | | | |
| i. | | | |
| ii. | | | |
| iii. | | | |
| d. Stores | | | |
| 1 | | | |
| 2 | | | |
| 3 | | | |

Form C1 (Contd)

| | Budget | Actuals | Remarks |
|----------|---|----------------|----------------|
| D | Wages | | |
| E | Salaries | | |
| F | Power & Fuel | | |
| G | Repairs & Maintenance | | |
| H | Rates and Taxes | | |
| I | Statutory Payments | | |
| J | Bank Charges | | |
| K | i. Travelling & Conveyance | | |
| | ii. Telephone | | |
| | iii. Stationery | | |
| | iv. Postage | | |
| | v. Misc. Expenses | | |
| L | Total Payment (B to K) | | |
| M | Gross Cash Generation (B to L) | | |
| N | Interest on borrowings | | |
| O | Net Cash (M to N) | | |
| P | Instalment Payment | | |
| Q | Balance after Instalment Payment (O-P) | | |

CHAPTER - 7

EFFLUENT TREATMENT

- 7.1 Disposal of effluents is the major problem faced by the tanneries. They have got away so long by discharging the untreated effluents into the adjoining lands. Drinking water sources of nearby human settlements and irrigation sources have been affected. Such environmental havoc would no longer be permitted to be done as both the public and the Government have woken up to the deleterious effects of untreated effluent. It should be recalled here that in two recent instances, the Supreme Court of India has ordered the closure of a large number of industries that were creating environmental hazards, the first case relates to a number of industries around Taj Mahal and the other, to a large number of industries discharging their effluents into the river Ganges.
- 7.2 In respect of new tanneries, effluent treatment has been made compulsory before issuing of industrial licences. For the existing tanneries unless effluent treatment is given top priority, there is every chance of their getting closed. So, in any modernisation programme of tanneries, effluent treatment should occupy the core.
- 7.3 In its report on "Capacity Utilisation and Scope for Modernisation in Indian Tanning Industry", CLRI has dealt with effluent treatment exhaustively, in respect of SSI units and Non-SSI units separately. The report also refers to the recommendations of a Committee set up by the Development Council for Leather Goods, suggesting setting up of "Common Effluent Treatment Plants" and a team with the technical assistance of CLRI has identified the following clusters of tanneries:
- | | | |
|---------------|---|---|
| Tamil Nadu | : | Pallavaram, Chromepet, Ranipet, Ambur, Vaniyambadi, Erode, Dindigul and Trichy. |
| Uttar Pradesh | : | Unnao and Jajmau. |
| West Bengal | : | Topsia, Tongra and Tilzala. |
| Punjab | : | Jalandhar |
| Karnataka | : | Bangalore and Dharwar. |
| Maharashtra | : | Aurangabad and Sholapur. |

7.4

This Committee's efforts to get the current status of these projects have not, unfortunately, succeeded. The following extracts from the magazine "Voice", August issue of 1993, gives the problems in financing effluent treatment projects in Tamil Nadu brought out by Mr. B.Akbar Fasha, M.P. to the Minister.

" The State of Tamil Nadu contributes to about 50% of the export earnings from the leather sector and over 55% of the tanneries in the country are located in this state, clustered at Ranipet, Vaniyambadi, Pernambut, Ambur, Dindigul, Trichy, Erode and Pallavaram.

" As a pioneering effort, based on the recommendations of a Working Group of the Union Planning Commission, sanction was accorded by the Ministry of Industrial Development, Government of India on 22-03-1990 of a grant of Rs. 369.00 lakhs being 25% of the estimate cost of Common Effluent Treatment Plant to be set up to cover clusters of tanneries located at Ranipet, Vaniyambadi, Pernambut, Ambur, Dindigul and Trichy.

" This was matched by the release of Rs. 369.00 lakhs by the State Government and for funding the balance tanneries were to contribute 15% of the project cost and borrow 35% of the project cost from financial institutions.

" Based on these schemes six companies were promoted by the Tamil Nadu Leather Development Corporation Ltd, and entrusted with the task of setting up Common Effluent Treatment Plants at these locations.

" Since this was a pioneering effort, where consultants were not many, and the land requirements of this project had to take into consideration the location of tanneries which were functioning and had come up in areas which are now urban agglomerations, it was through IDBI the gap covered by the Rs 50 lakhs ceiling would have to be met by additional loans at commercial rates or by promoters.

" Due to this new scheme Ministry of Environment and IDBI have not been responding favourably to the release of additional subsidy and refinance respectively for an ongoing project. As a result, the projects are all grinding to a halt for want of funding....."

7.5

CLRI report has identified the main bottlenecks in effluent treatment to be as follows:

1. Lack of adequate finance;
2. Lack of suitable treatment technologies;
3. Inadequate land availability;
4. Disposal of solid sludge.

The main bottleneck, viz., lack of adequate finance, is sought to be solved by this Committee by recommending the setting up of a Leather Development Fund. With adequate provision of funds, CLRI must be able to identify suitable treatment technologies as well as disposal of solid sludge, either through its own research or transfer of suitable technology from abroad. Land availability also could be tackled with the assistance of the State Government concerned, when lack of funds would not be a constraint.

7.6 If the relocation/rehabilitation of existing units in the new leather complex is properly done, it will provide one successful way of effective management of effluent problems.

7.7 In the Committee's view, effluent treatment should receive top priority in respect of tanneries, if Indian Leather Industry were to cash in on the opportunities in the world market. Here also, time is the essence of success and any delay would result in missed opportunities.

CHAPTER - 8

MAJOR ISSUES RELATING TO THE WELL-BEING OF LEATHER INDUSTRY AND REVIVAL OF SICK UNITS

8.1 FOLLOW-UP ACTION ON EARLIER COMMITTEE REPORTS:

a) A number of committees have been set up in recent times on leather industry. However, decisions on the recommendations of these committees cannot be said to be expeditious. The Committee would like to cite two examples:

(i) A Committee recommended correcting the typographical errors and inaccuracies in the nomenclature of a number of items in the import notifications. On the formal proposal initiated on the Committee's recommendation, action is pending with the department concerned since September, 1992. This does not involve any policy decision.

(ii) Sponsored by SBI & IDBI in 1987, CLRI published in 1990, a Report on "Capacity Utilisation and Scope for Modernisation in Indian Tanning Industry". This report furnishes reliable data on tanneries, raw materials availability etc. It also contains a lot of very useful recommendations on modernisation. However, no follow-up action so far appears to have been taken on this report either by the SBI or the IDBI, the sponsors of the study.

b) This Committee is highlighting this point to show that an industry is happy when a committee is appointed in the expectation that the industry will benefit to some extent from the recommendations of the committee. However, it is doubly unhappy when no decisions on the recommendations of these committees are taken and the hopes raised by the appointment of the committees become illusory due to the delays.

8.2 STATISTICAL DATA

(i) It is the experience of this Committee that there is a considerable time lag in obtaining statistical particulars relating to leather industry from the public sector banks. One reason that was given was that as loans and advances to leather industry come under a head which includes other industries also, segregation of data for leather industry alone is time consuming. It is somewhat surprising that the need for having data for leather industry alone, an export thrust industry, was not felt so far.

(ii) The Committee requests RBI to look into the present mode of

collection, collation and maintenance of statistical data by banks relating to their assisted industrial units and to devise a system by which each bank has up-to-date information regarding the status of advances to the assisted units. Each branch should have readily the data for its branch showing aggregate advances for each specified industry and the status of such advances. Similarly, the Regional Office should have aggregate lending industry-wise in its region. The Zonal Office, should have similar data region-wise for the assisted units industry-wise. The Central Office should have industry wise data for the entire bank. The Committee also opines that RBI should also maintain industry-wise data for each bank and for each State. This will help to continually monitor the status of each industry and the details of bank funds in jeopardy in each bank industry-wise. With computerisation, maintenance of such data should not be difficult. The Committee is of the view that continual and critical attention to funds in jeopardy by a bank would itself lead to a greater awareness of sickness in industry and enable the bank to take timely suitable measures to control sickness.

8.3 MONITORING CELL IN BANKS FOR SICK UNITS:

- (i) The rehabilitation/revival of sick units should be entrusted to a cell at the Central office of each bank. This cell should be very active and should closely monitor the performance of not only the assisted units but the branch concerned in serving the sick units.
- (ii) As regards monitoring of the units, the Committee has dealt with it in some detail in an earlier Chapter. It is intended to watch closely the functioning of the unit. Monitoring of the assisted branch is to ensure that all matters connected with a sick unit are dealt with the utmost promptitude and the working capital is both adequate and timely.

8.4 TOTAL QUALITY MANAGEMENT AND ISO-9000 ACCREDITATION :-

- (i) It is quality of a product that ensures its marketability and gives it an edge in the International market. After the EEC countries have resolved that certain specified products (leather and leather products are now not included but the list is bound to expand) that are imported into their countries should be from units that have obtained ISO-9000 Certification, there is feverish activity in some of the leading Indian companies - the exception being leather units - to get ISO-9000 Certification. So far as the leather industry is concerned, systems approach to quality control, quality assurance and quality improvement is more an exception than a rule. The position in regard to ISO-9000 Standards is no different.

(ii) The importance of Quality has been recognised by GOI at the policy level. Following are the extracts on Quality from Chapter XIV of the EXIM POLICY of the Government of India:

Quality Awareness Campaign It is the policy of the Central Government to encourage the manufacturers and exporters to attain internationally accepted standards of Quality for their products. The Central Government will extend support and assistance to trade and industry associations to launch a nation-wide programme on quality awareness and to promote the concept of Total Quality Management.

State level Programmes The Central Government will encourage and assist State Governments in launching a similar programme in their respective States, particularly for the small scale and handicraft sectors.

Rewards and Benefits The Central Government will introduce a scheme to recognise and suitably reward manufacturers who have acquired the ISO-9000 (series) or the IS:14000 (series) or any other internationally recognised equivalent certification of quality. Such manufacturers will be eligible for such benefits as may be notified in this behalf.

Test Houses The Central Government will assist in the modernisation and upgradation of test houses and laboratories in order to bring them at par with International Standards so that certification by such test houses and laboratories is recognised within the country and abroad.

These are the policy statements setting out the goals of Government of India to spread the quality concept in industry. The specific actions that have been taken to implement these goals are not readily available.

The Committee is of the view that the benefits accruing to a unit by quality control measures is not fully realised by the leather industry. By reducing the rejection and rework and regulating inventories through quality control measures, the profitability of a unit would increase. As a lender, the assisting bank / institution should ensure that the loan is regularly serviced. The assisting bank / institution, should, therefore, take interest in encouraging its assisted units to streamline their quality system and strive for getting ISO-9000 Certification. The banks / institutions may consider having as one of the loan conditions that the assisted unit should secure ISO-9000

accreditation within a specified time frame of, say 1 year.

(iii) In this connection, the Committee would like to refer briefly to the Japanese experience. Japan, whose products were known world-wide for poor quality in the years prior to 1940 has become within three decades the number one in quality in such varied products like two-wheelers, cameras, electronics, radio, television. India could and should copy the measures adopted by Japan.

(iv) Committee would like to suggest the following measures:

- * Japanese Government declared better quality a national priority. So, should our Government unequivocally declare whenever an opportunity arises for Ministers to address industry and industrialists.
- * Introduction of a chapter on Quality in the curriculum of courses offered by various technical institutes on leather and leather products;
- * Six months courses on Quality / ISO-9000 should be offered by all Engineering Colleges to Graduate and Diploma Holders in Engineering;
- * Weekly radio series on quality ;
- * Weekly television series on quality ;
- * GOI award on quality industry-wise ;
- * State award on quality industry-wise ;
- * Declaration of a month every year as the National Quality Month when seminars, colloquia, group discussions etc. on quality should be organised, industry - wise at several centres in the country. The objective should be to make the industrialists, small, medium and large and industrial employees at all levels to realise that 'Quality is Growth'.

8.5 INTERNAL MECHANISM FOR QUICK REVIEW OF BANK MANAGER'S DECISION

(1) Recognizing infallibility is not a human trait, there is invariably a provision for review, revision or appeal on a decision made by any public servant/authority. The highest judicial forum in the land is no exception to this. However, some banks do not seem to have such a procedure of reviewing the decision of the sanctioning authority by a higher authority. The reason advanced for the extant practice is that the banking, being a sensitive activity, there should be a finality in decision at the first level of decision making itself. It is also contended that individual borrowers get an opportunity to air their grievances at the

periodical customers' meet with the senior officers of the bank. There is nothing 'sensitive' about individual lending. It is more the 'sensitivity' of the Manager to a review of his decision by a superior authority. With the banking services now coming under the purview of 'Consumer Protection Act' the stand regarding the sensitive nature of bank lending can no longer hold. Regarding periodical customers' meet giving an opportunity to bank's customers air their grievances, a meeting of a large number of people with different individual grievances/ patterns cannot be a substitute for a review mechanism for individual grievances. No borrower would like to utilise an open forum to highlight the problems he faces with the bank. If he does, he knows that he would be a marked man by the bank.

(ii) The Committee requests the RBI to evolve a procedure by which a borrower is given an opportunity to represent in writing to the sanctioning authority to review his decision. The sanctioning authority with his comments would submit the written representation of the borrower to the designated higher authority. The designated higher authority after review would instruct the sanctioning authority suitably on the borrower's representation and based on these instructions, sanctioning authority will act and communicate the decision on the representation.

(iii) (a) In this connection, the Committee has studied the RBI's circular RPCD No: PLNFS.BC.1/06.02.31/92-93 dated 3rd July, 1993 and the subsequent circular dated 6th November, 1993, to all the scheduled banks on some of the recommendations of the Nayak committee on SSIs. According to these, if unit's applications for fresh limits/enhancement of existing limits are not considered favourably by the sanctioning official or where the limits applied for are proposed to be curtailed, the cases should be referred to the next higher authority with all relevant particulars.

(b) These Guidelines have been issued only in respect of SSIs, whereas the Committee's recommendation is applicable to both SSIs and non-SSI Units. The Committee would recommend that the application of the guidelines should cover non-SSI units also.

(c) There is a general reluctance on the part of higher authorities to interfere with the decision of the sanctioning authority. This is particularly so in the case of rehabilitation/revival proposal. The reason is that when a rehabilitation/revival scheme unfortunately fails, the blame is sought to be fastened on the authority which ultimately decided the limits. Bonafide decisions, even if they turn out to be wrong, should be accepted as normal, since to err is human. Unless the officers have the confidence that they would not be called to account for their bonafide decisions even when they go wrong, the higher authority would find it safe to confirm the decision of the sanctioning authority. A good management should be able to create an environment in which there will not be witch hunting of officers for their bonafide decisions.

(d) The other point the Committee would like to make is that these guidelines are internal instructions intended for banks only. The existence of this procedure should be made known to the borrower also, so that they may know they have an opportunity to get their grievance redressed. Though initially there may be a flood of applications for review of the decision of the sanctioning authority, things will settle down before long. The sanctioning authority being aware that his sanctions are subject to review his decisions will be consistent. Borrowers on the other hand will realise that with a regular mechanism for reviewing the decision of the sanctioning authority, there will be less of ad hocism in such matters.

8.6 PERIODICAL EXPOSURE PROGRAMMES FOR BANK OFFICERS DEALING WITH INDUSTRIAL ACCOUNTS

- i. In the Committee's view one of the contributing causes for sickness in industries is those handling industrial finance in banks have not had an exposure to operational problems faced by the manufacturing units. Managers and others in senior positions no doubt understand balance sheet, profit & loss account, cash flow statement and other matters connected with financial transactions. They are in a sense 'generalists' well versed in the banking procedures like the 'generalists' in administration. But what is needed for assisting an industrial unit is not a mere expertise in banking procedures but also a basic operational knowledge of the assisted industry itself and its peculiar and special features. A bank officer attends a variety of training programmes on matters connected with banking practices / procedures. However, there is presently no arrangement by which bank officers attend specially structured sessions on specific industries like Textile, Engineering, Leather, Plastics, Electronics, to acquire a knowledge on the basics of the industry.
- ii. So far as the leather industry with which this Committee is concerned, it is of the view that leather, being a thrust export industry, the Manager and all officers of the bank dealing with a number of leather accounts should have undergone an exposure session on leather industry. The exposure session need not be for more than 2 weeks. One week will be devoted for lectures by leather experts on raw material, chemicals, grinders used in the leather industry and their availability, price fluctuations, quality variation etc. The other week should be for visits to a tannery, and to one each of the manufacturing units in shoe upper, full shoes, leather garment and leather goods, to have an idea of the various operations and processes in the manufacturing cycle of a product. CLRI which has been offering tailor-made courses to organisations and individual industrialists could be appointed to assist the banking system in this programme. The lack of knowledge of the basics of the industry at the operational level of

the Manager and others should not be allowed to affect the fortunes of a viable unit. The training suggested should be able to remove one of the existing impediments in the satisfactory handling of leather accounts.

8.7 WAIVER OF CAPITAL GAINS TAX

When a capital asset is sold, the sale proceeds are liable to capital gains tax. For a sick unit under revival / rehabilitation, the Central Government should waive the capital gains tax provided the entire sale proceeds of the capital assets sold, are employed in the revival / rehabilitation of the sick unit. The sanction of the waiver could be only on the basis of a certificate from RBI that the unit is a sick one under rehabilitation / revival.

8.8 EXEMPTION OF EXPORT PROFIT FROM INCOME - TAX

Central Government should exempt a bank's income from export transactions from Income - Tax. This will help to improve the profitability of a bank and will be an incentive to make a bank to take an abiding interest in financing exports.

8.9 NOTIFYING A UNIT UNDER REHABILITATION AS A SICK UNDERTAKING

A unit under rehabilitation should be notified by the State Government concerned as a 'Relief Undertaking' under the relevant Relief Undertaking Act of the State Government for an initial period of three years. This will stay legal proceedings by the creditors for recovery of their dues from the unit under nursing.

8.10 EXEMPTION FROM THE LAND CEILING ACT

When surplus land is sold by a sick unit for supplementing the resources for rehabilitation, the State Government concerned should automatically grant exemption for such sales from the relevant Urban Land Ceiling Act, provided the entire sale proceed is employed in the revival / rehabilitation of the unit.

8.11 UNIT UNDER REHABILITATION TO BE EXTENDED THE SAME CONCESSIONS AS FOR NEW UNITS.

State Governments sanction to new industrial units, several concessions like capital subsidy, waiver or deferment of sales-tax concession in power rate. The reason for these concessions is to attract new units, which will increase both production and create new job opportunities. As the revival of sick units also increases production and provides continuous employment, the State Government should

extend to a sick unit under revival / rehabilitation the concessions on the same scale and on the same terms as for new units.

8.12 PUNITIVE ACTION TO BE STAYED IN CASE OF SICK UNITS UNDER REHABILITATION

In respect of statutory dues, like Sales-Tax, court action may be deferred/stayed and the sick unit under rehabilitation/revival be allowed to repay the dues in easy instalments, after an interval of at least one year from the date of recommencement of production.

8.13 SPECIAL INCENTIVE FOR BANK STAFF DEALING WITH SICK UNITS UNDER REHABILITATION

- i. It is only natural that rehabilitation/revival of a sick unit is considered a sticky business by bank officers. A sick account does not provide the thrill, hope and expectation of success of a new unit which starts on a clean slate. It requires on the part of those handling the account in the bank, a good knowledge of the industry, a correct assessment of the promoter's, previous history of the sick unit and an understanding and anticipation of the pitfalls likely to be faced. No wonder there is lack of enthusiasm and a kind of negative approach generally pervades in handling a sick unit. To make the Bank Manager concerned and others directly connected with rehabilitation / revival of a sick unit to take interest and initiative in the task of rehabilitation / revival some tangible incentive has to be given to them. Non-monetary rewards do not make as much impact as monetary rewards, especially in these days of rising costs all round. So, the Committee suggests monetary rewards to the Manager and all other employees directly connected with the rehabilitation / revival of a unit, relating it to the quantum of reduction in losses by the rehabilitation / revival scheme.
- ii. Many may raise their eyebrows at the suggestion for rewarding persons to do their duty and for rectifying a situation that has emerged partly due to commissions and omissions of the assisting bank / institution itself. This is on the model of the incentive schemes currently in vogue in Income - Tax, Customs and Central Excise to reward their employees who help to recover the evaded taxes and levies. This is worth a trial in one selected branch of each bank before it is extended.

8.14 Any export-oriented unit is affected by international developments. Leather industry is no exception. A few years ago, many units which had exported to Yugoslavia were affected when there was political turmoil in that country. In recent months consequent to the splitting up of USSR, units that had exported to erstwhile USSR were facing difficulties in getting payments for supplies effected. At

a time when a lot of far-reaching political changes are taking place all over the world, some problem or the other is bound to arise by those who have exported to those affected countries. The problems faced by such exporters cannot be tackled by the assisting bank even at the corporate level. The Committee, therefore, suggests that RBI may set up a Standing Committee to deal with major problems faced by exporting units. The Standing Committee may comprise a representative of RBI who will be the convenor, one representative each from the Union Ministries of Industry, Commerce, Economic Affairs, External Affairs and a representative of ECGC. One or two representatives from bank may be included as special invitees. Commercial Banks may be advised to remit all major problems relating to export which require Governmental intervention to this Committee which would make its recommendation to RBI/Government. This Committee could meet as often as the need arises for such meetings, but at least once in two months.

CHAPTER - 9

REHABILITATION FRAME WORK

- 9.1 Before taking up the rehabilitation of a sick unit, its viability has to be ascertained.

The prospects of revival/rehabilitation depends on the viability of the unit within the parameters of concessions suggested by RBI/IDBI in their guidelines. The examination of viability itself takes a long time as is the practice to prepare a profit and loss account and cash flow statements for seven years. Again the determination of concession itself takes time. As in the case of serious case of illness, sooner the treatment is started, the better are the chances of revival.

- 9.2 According to the Committee, it should be possible by a simple rule of thumb to assess qualitatively whether the unit can be viable on extending certain concessions. Viability has been defined by RBI in one of its circulars as follows :

" A unit may be regarded as viable, if it would be in a position, after implementing a relief package spread over a period not exceeding seven years from the commencement of the package from banks, financial institutions, Government (Central / State), Government Agencies, shareholders, labour, suppliers of goods and services and other creditors, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured debts should not exceed ten years from the date of implementation of the package"

In other words, a unit is viable when the net surplus generated by it after meeting all the statutory obligations and interest payments is sufficient to service the old liability and current liability to the institutions/ banks.

- 9.3 The rule of thumb we would suggest is as follows. The first step is to get up-to-date liabilities of the units to i) the bank, ii) financial institutions, iii) trade creditors, and iv) towards statutory dues, to know the total liabilities of the unit. In the case of sick units to get the details of outstandings under principal, interest, interest on

interest, penal interest and damages from the assisting bank for working out the reliefs and concessions becomes very difficult. Banks maintain the accounts in such a way that the entire accounts of the unit have to be gone through, a very laborious and time consuming process, for obtaining these details. On the other hand, in the case of financial institutions, these particulars are readily available. It should also be possible in banks, if the existing procedures are suitably modified. The point is that the health of a unit coming for rehabilitation/ being critical, whatever be the assistance to be given, should be adequate and timely. If it takes months for getting the particulars regarding principal, interest etc. the sick unit sinks further, making the task of revival which is already formidable, almost impossible. The Committee requests RBI to have this position in getting details from banks rectified.

9.4 The next step is to assess what the surplus a unit can generate. The installed capacity of a unit is known. Assuming an average capacity utilisation of 60% and taking the average of industries spread per sq.foot in the case of tannery, or per pair of leather garment or per piece in the case of full shoes or shoe upper, as the case may be, i.e., the difference between the input cost and output realisation excluding interest, depreciation and tax, the annual expected surplus would be known. If the total net surplus realisation is adequate or near about adequate to service the total liabilities in reasonable years, the unit is then viable. The viability can be improved in some cases by reducing the liability by disposing of surplus assets of land and machinery and in some cases improve the surplus realisation by either increasing the capacity utilisation to a reasonable level not exceeding 65%, depending upon the condition of the machinery and the past track record of the unit. Units which do not stand this kind of viability should be told as early as possible that the bank/institution is not interested in the rehabilitation of the unit. It would not require elaborate cash flow statements for seven years or more, to arrive at this primary decision.

The units which stand this quick test of viability should be considered for revival and revival package finalised quickly.

9.5 A unit which has been sick cannot be fully activated overnight. A minimum period of at least six months will be required before its working is reasonably streamlined. During this period, it has to be ensured that it does not suffer from cash crunch. If it does, it would adopt the usual tactics of doctoring the inventory before it slows down its production and comes to a grinding halt again.

9.6 Funds required in any rehabilitation/revival proposal of a sick unit can be classified under the following categories :

- i. Working capital:
- ii. For repairs and reconditioning of existing machinery and purchase of balancing equipment;
- iii. Purchase of new machinery to increase production;
- iv. Accumulated interest dues which will be separately funded into a short term loan;
- v. Dues to workers;
- vi. Statutory dues;
- vii. Residual irregularity in Cash Credit account representing accumulated cash losses after aggregating unpaid interest.
- viii. Future cash losses upto break-even point worked out before interest on working capital.
- ix. Creditors.

9.7 As regards interest rate on the working capital, the Committee does not consider that any concession need be given as a unit under revival should be able to generate sufficient surplus to pay the normal interest.

9.8 As regards item ii, the Leather Development Fund (LDF) (for details please see Chapter 12) can assist at an interest rate equivalent to Bank rate, to be repaid in seven years' time, of which one year will be a holiday.

9.9 As regards item iii, again LDF can assist on the same terms as for item ii.

9.10 A bank has two options facing it when a unit turns sick. The first option is to call back the advance and initiate legal proceedings for recovery. The second option is to take steps to revive at least to get back the principal. When the liability of a sick unit to the assisting bank/institution is so large, that it cannot be recouped by any rehabilitation/revival programme, the practical approach should be to pare down the liability to a level that it can be recovered from the surplus generated through production. Adopting the first option, the bank will be throwing good money after bad by incurring further expenses through litigation by way of court fees and lawyer fees. In the meanwhile, the amount due to the bank is locked up with the unit. The other option is to take a positive approach of reviving the unit by foregoing penal interest, interest on interest, etc. The first option may not help to recover even the principal amount in many cases whereas the second alternative in many cases may help to retrieve the principal amount atleast. Bank should arrive at the interest dues by charging only simple interest on the loan outstanding, after waiving penal interest, etc. The amount thus arrived at should be funded and interest at simple interest on the banks lending rates should be charged. When discretion is given to a bank to determine the rate of interest, it is only natural to minimize the sacrifice on its part. In the

time-consuming process, the burden increases, the assets deteriorate, the promoters lose heart and chances of revival recede. If there be any difficulty in the RBI giving a direction in this regard, bankers can meet in the Indian Banks Association and decide on a binding convention in this regard.

- 9.11 Dues to workers will still be a matter for negotiations within the unit.
- 9.12 As for statutory liabilities, court action should be stayed and an understanding should be reached between the unit and the statutory authorities (EPF, ESI, Sales-tax etc) for the recovery of the arrears in easy instalments on condition that current liabilities are paid promptly by the unit.
- 9.13 As for creditors, it is for the management to reach a satisfactory agreement with the creditors. However, the unit will get notified as a "Relief Undertaking" by the State Government concerned.
- 9.14 As for items (vii), (viii) and (ix) of para 9.6 above, they will be dealt with under RBI guidelines.
- 9.15 A suggestion has been made to encourage foreign collaboration in leather industry, particularly in the case of tanneries. In Western countries due to pollution problem many tanneries have been closed. A few of the foreign companies in leather industry have shown interest in taking over the closed tannery initially on lease and later on take over them, provided they are not caught in the web of legal proceedings of the sick unit. If this is properly worked out, it has a double advantage. The waiting period for the establishment of the joint venture by setting up a new unit will be considerably reduced. From the country's point of view the dormant assets of the closed units would get activated and flow of foreign exchange will begin early.
- 9.16 The Committee suggests the following methodology for this;
- (a) A separate private limited company to be formed with the Indian promoter of the sick unit and the foreign collaborator. One of the objectives of this company is to take over the sick unit. The equity capital of the company shall be not less than Rs 100 lakhs.
 - (b) All the reliefs suggested by various authorities in Chapter 8, should be made available to the sick unit as a matter of course in the shortest time possible.
 - (c) The new company will take the sick unit on lease for a period of three years.

- (d) The lease amount shall be determined with reference to depreciation amount for all fixed assets, rental for the factory buildings and hiring charges for the plant and machinery. It can be linked as a percentage to sale with a minimum amount for a period of three years.
- (e) Maintenance during the lease period should be the responsibility of the lessee.
- (f) An assurance should be given by the assisting banks/institutions that they would not in any manner exercise any lien on the raw material, WIP & finished goods during the currency of the lease period.

9.17 In the case of rehabilitation of a sick unit assisting banks suffer from the natural syndrome of "once bitten twice shy". In order that large funds are not sunk in the expectation that the unit would turn around, the risk element should be minimised. In this context, in the case of tanneries under revival, they should be exempted from the present ban on export of semi finished leather, by allowing tanneries under rehabilitation to export crust, for a period of three years of rehabilitation.

9.18 The immediate reaction to this suggestion would be adverse for the reason that it would be contrary to the existing policy and affect the availability of leather to domestic user industries. It should be appreciated that only a temporary exemption is suggested and that too for a unit under nursing. Manufacture of crust will increase the quantum of production as the manufacturing cycle for crust is a third of the time taken for finished leather. The requirement of working capital would also be less. More importantly, there will be larger generation of surplus. Export of crust will help to earn foreign exchange with less chance of its rejection by the foreign buyer. The foreign exchange generated can be employed to import raw hides to meet any shortfall in their availability. When the pros and cons are weighed, in the larger interest of reviving sick units and activating the dormant assets, the Committee is of the view that its suggestion merits acceptance.

CHAPTER - 10

MODERNISATION OF LEATHER INDUSTRY

10.1 The Committee has to fall back on the CLRI's report on "Capacity Utilisation and Scope for Modernisation in Indian Tanning Industry", in which modernisation of tanneries has been dealt with in detail.

Modernisation programme comprises:

- the streamlining of production using modern production technologies ;
- rationalising the use of chemicals to optimum level;
- reducing the processing time resulting in increased production; and
- reducing the drudgery of workmen engaged in production.

The Committee would strongly commend that too long overdue follow-up action on the report of CLRI should be initiated early.

10.2 For improving the productivity and material economy, adoption of modern techniques is essential and requires urgent attention. The report suggests three levels of automation and process control strategies as hereunder:

Level I Improved manual controls through:
(a) closer monitoring of material inputs and process parameters; (b) replacement of obsolete machinery; and (c) simple effluent treatment and material recycles.

Level II Improved manual controls supported by simple instrumental techniques and alternative technologies for material and energy optimization.

Level III Partial automation with micro-processor based control systems and higher level technologies leading semi continuous and continuous process technologies.

10.3 Mere replacement of obsolete machinery, instrumentation etc., would not by themselves produce the results, without the upgradation of human skills which can only be done through massive appropriate training to employees at various levels. The number that undergo training programmes presently is a very small percentage of the total employed. The new organisation to be promoted by the industry that we

have suggested, would be in a position to organise training for large numbers. In our view training is very necessary for the promoters, proprietors, and chief executives too to remove the cobwebs in their thinking. They must be exposed to and made to imbibe the principles of modern management. Without their abiding interest in implementing the cost reduction methods and quality assurance measures, Indian leather industry would continue to stagnate and miss the opportunities to grow and expand.

10.4 State-wise investment needs estimated in the CLRI report is given in the following statement:

TABLE

STATE-WISE INVESTMENT NEEDS FOR MODERNISATION OF TANNERIES
(Rs in Million)

| S.No | State | SSI | DGTD | TOTAL |
|-------|----------------|------|------|-------|
| 1 | Tamil Nadu | 1174 | 241 | 1415 |
| 2 | West Bengal | 460 | 98 | 558 |
| 3 | Uttar Pradesh | 435 | 45 | 480 |
| 4 | Andhra Pradesh | 12 | 62 | 74 |
| 5 | Maharashtra | 36 | 13 | 49 |
| 6 | Karnataka | 48 | -- | 48 |
| 7 | Punjab | 19 | 30 | 49 |
| 8 | Other states | 70 | 10 | 80 |
| TOTAL | | 2254 | 499 | 2753 |

10.5 It will be seen that in 1989-90 the total outlay on modernisation of all tanneries was arrived at as Rs. 275 crores. The study has shown that the range of investment in SSI sector will be 33% for Rs.10 lakhs and below, 18.4% in the range of Rs 11 lakhs to Rs 20 lakhs, 12.7% in the range of Rs 21 lakhs to Rs 30 lakhs, 15% in the range of Rs. 31 lakhs to Rs. 50 lakhs, 9% in the range of Rs. 51 lakhs to Rs. 100 lakhs and 1% above Rs. 100 lakhs; the national average will be Rs 28 lakhs with state average varying from from Rs. 43.8 lakhs in Karnataka, Rs. 38.2 lakhs in UP, Rs. 27.6 lakhs in Tamil Nadu and Rs.9.5 lakhs in Andhra Pradesh.

- 10.6 In the non-SSI sector the range of investment has been assessed as follows: Rs 0 to 10 lakhs - 4.1%, Rs 11 to 20 lakhs - 10.2%, Rs 21 to 30 lakhs - 14.3%, Rs 31 to 40 lakhs - 8.2%, Rs 41 to 50 lakhs - 16.3%, Rs. 51 to Rs. 100 lakhs - 22% and only 12% for more than Rs.100 lakhs. In the non-SSI sector, the national average is Rs.94 lakhs, with West Bengal at Rs.195 lakhs, Andhra Pradesh with Rs. 155 lakhs, with Punjab at Rs. 100 lakhs and Maharashtra at Rs. 43 lakhs per tannery.
- 10.7 Of the Rs. 275 crores of investment, the share of SSI sector is Rs. 225 crores and for non-SSI sector Rs. 50 crores. Allowing for escalation in costs since the report was published, the total investment on modernisation may not exceed a total outlay of Rs. 350 crores, of which about Rs. 290 crores would be for SSI sector and Rs. 60 crores for non-SSI sector. A detailed study on unit to unit requirements only can give an aggregate estimate for each cluster of units in a specific locality. However, individual cases on merits can still be given the assistance, without waiting for the detailed study.
- 10.8 The entire modernisation should be completed within a time frame of 5 years. First year, the actual expenditure will be low at Rs. 25 crores, and in the subsequent years, it could be Rs. 50 crores, Rs. 75 crores, and Rs. 100 crores.

10.9 CONCLUSIONS:

The following extracts from "conclusions" in the CLRI report put the problem of modernisation succinctly.

"The technical report on modernisation has been mainly aimed at a study of the existing processing techniques, vis-a-vis the practices that can be adopted to effect qualitative and quantitative improvement in leather production eliminating at the same time some of the associated problems of effluents. A cleaner technology which aims at saving of chemicals, water, energy as well as adoption of modern programme and control methods is called for in view of the changing needs of international demand for quality leathers. The employment of marketing and management practices in running the tanneries has been highlighted as one of the concepts in the process of modernisation. The basic quality controls that need to be exercised and the effective way of handling them through setting up of laboratories either by individuals or through co-operatives have also been stressed. With the structure of the industry undergoing vertical expansion, the revamping of the production system catering to specific demands of the product sector has also been indicated. As one can realise that R&D is an

investment for the future and since in this country the input in R&D by individual tanneries is negligible due to a number of factors, it is felt necessary that more concerted efforts are to be taken to effect infusion of increased financial resources into the R&D system through Research Institutions, to have a real impact on this industry, whose growth rate has been markedly appreciable in recent years. As the leather industry is itself characterised by its geographical spread and the co-existence of giant, small and cottage industries, modernisation should take into consideration this aspect. Relevant modernisation in the context of our strengths and avoiding the pitfalls, environmental disharmony in particular, that have driven the Western industry to the brink of closure, can help the Indian leather industry to grow further in strength and play a leading role in the global leather scene, thus fulfilling our economic and social objectives'.

CHAPTER - 11

CONSULTANCY ORGANISATIONS TO BE PROMOTED AND MANAGED BY LEATHER INDUSTRY

- 11.1 The Committee has considered a suggestion that has been put to it about setting up of an organisation by leather industry to which its individual member units could refer its problems of ad-hoc nature in regard to Production, Quality, Maintenance, Materials, Marketing, HRD, Finance and General Management.
- 11.2 The first question that arises is whether there is need for such an organisation when there is CLRI. The argument advanced is that CLRI, the largest leather R&D unit, is intended to serve the entire leather industry. Then proliferation of such an organization and duplication of investment is an unwanted luxury. Since all facilities are available including the input of scientists, industry should adopt this institute on the basis of common industrial sponsorship with secrecy for individual units. In this background, a suggestion has been made that the Committee should recommend workable linkages between industry and CLRI on the model of British Leather Council and SATRA.
- 11.3 (a) The Committee would like to refer briefly here to the types of services rendered by Shoe & Allied Trades Research Association (SATRA), for the reason that the Indian leather industry, if it wants to grow and sustain its growth, could establish organisations which can render a variety of services as rendered by SATRA to footwear industry.
- (b) SATRA Foot Technology Centre, based at Kettering, Northants, U.K., is an International Organization with 1100 members in over 40 countries. The membership is made up of footwear manufacturers, retailers, repairers and suppliers of materials and machinery and components. The membership includes such leading companies like Adidas, Bata, Bally, Brown Shoe, Clarks, Puma.
- (c) SATRA gives exclusive access to research products and services for :
- improving quality;
 - reducing production costs;
 - evaluating materials and products;
 - solving fashion problems;
 - increasing world wide sales.

Its Test and Product Reports are accepted world wide. If there be a technical problem in a member's shoe factory, SATRA personnel can carry out a 'trouble shooting' function. When any problems occur with customers or suppliers, SATRA acts as a neutral arbiter. SATRA has a fashion technology service which predicts footwear and clothing fashion trends and anticipates technical problems. SATRA runs an information centre which helps to get in touch with potential customers. Its publication World Footwear Markets gives comprehensive footwear marketing information.

(d) SATRA offers consultancy to assist the management of both new and existing laboratories and conducts training courses and seminars to aid the development of personnel in footwear industry.

(e) SATRA produces a wide range of test equipment for leather. SATRA's Material Evaluation Centre provides an objective assessment on:

- Upper leather;
- Coated fabrics;
- Textiles;
- Solings;
- Adhesives;
- Threads;
- Linings;
- Heels;
- Top-pieces;
- Units;
- Tapes.

(f) Experienced staff indicate the product's suitability for the purpose it is intended to be used and also give shoe manufacturing advice, if necessary. Test results are given by phone or fax or telex five days after the receipt of sample and postal copy sent soon thereafter.

1.4.1 The CLRI, with its Head Quarters in Madras and Regional Centres at Bombay, Calcutta, Kanpur, Jalandhar and Rajkot is one of the National Laboratories established by the Government of India. According to CLRI, the services offered by them include transfer of technologies, Brain Bank for Time Bound Consultations, Techno-Economic Feasibility Evaluations, International Training and Education, planning new modern tannery projects, technical advice for revitalization of old units, rapid service in CAD for footwear, resource potential assessment for leather market trend analysis.

11.4.2 The other activities of CLRI include the following;

(i) Under the 'Retainers' Consultancy Programme' of CLRI, a tanner who pays Rs. 25,000 per year can get on priority basis necessary technical assistance from the Institute as

and when he requires; Scientists of CLRI do make periodical visits to study the processes and find solutions for the problems of the units.

- (ii) Testing facilities for determining quality of leather and other material inputs for the benefit of the industry are being offered. At the request of Customs, CLRI undertakes the assessment of finished leathers and its test reports are treated as final.
- (iii) Development of Footwear Designs and transfer the same to the industry.
- (iv) Under Ganga Action Programme, CLRI has been involved in providing technical services for running common effluent treatment plant and for introducing chrome recovery techniques in Kanpur region.
- (v) On specific requirements, CLRI also assists tanneries in their modernisation programmes, introducing of process control techniques and designing of layout.
- (vi) Preparation of project reports for setting up leather complexes or relocating of existing units is another line of service being provided (e.g) Leather Complexes at West Bengal and Maharashtra.

11.4.3 As the Premier Research and Development Organization for leather and internationally renowned, CLRI has been rendering yeoman service to leather industry. The fact that CLRI is one of the National Laboratories, while adding prestige and stature to it, makes it too big for being directly approached by a large number of middling level and small units in leather industry. Thus the present suggestion is not in any way to denigrate the importance of CLRI, but only to supplement and complement its efforts.

11.5 While conceding the need for providing management consultancy service to leather industry, two suggestions have been considered. The first is that the consultancy wing of CLRI could be strengthened (a) by having persons with industrial experience in leather industry and (b) the additional expenses of CLRI in this regard being met :

- (i) from out of the annual contribution from the leather industry as per a formula; and
- (ii) from the consultancy fees from the units referring problems for the consultancy wing of CLRI.

Thus, from out of the contributions from the leather industry CLRI could enlarge its scope of consultancy services.

The other suggestion is that CLRI could have a panel of

consultants on leather industry. Whenever a unit refers a problem to CLRI, a suitable consultant from its panel will deal with the problem and CLRI will determine the fee and duration of such consultancy service.

11.6

If the leather industry desires to establish an organisation which will give consultancy services on production, marketing etc, it does not need the permission of any one. There need be no duplication of work as clear areas of demarcation of work between CLRI and the new organisation could be drawn. Conceptually the role and functions of CLRI and the new organisation will be different. Basically, CLRI will be a Research and Development Organisation and an Apex institution in leather industry for all India. The new organisation will be dealing with adhoc problems of individual units referred to it, in the areas of production, productivity, management and training. In short, the new organisation will deal with operational problems of individual units referred to it, whereas CLRI will be dealing with Research and Development problems of the leather industry in the following areas:

- Long term growth
- Research in improvement and availability of hides and skins
- Pollution abatement
- Technology transfer
- Bio-technology
- Modernisation of leather industry

The new organisation will concentrate on shop floor problems from individual units. Its services could be broadly termed as Management Services and will include:

- Productivity improvement
- Cost control and cost reduction
- Work simplification
- Systems and procedures
- Total Quality Management
- Data collection for inter-unit comparison and their dissemination
- Training in local languages to the first stage workers

The Committee visualises the new organisations to act as extension agencies of CLRI for applying the relevant research finding of CLRI in the production units.

The proposed new organisations cannot be considered redundant. For example, based on the need there is more than one all-India financial institution for industry and more than one financial institution for industry in each of the States. For a large country like ours, which in area is Europe minus erstwhile USSR, for leather industry, one of the thrust industry for export, with its phenomenal growth and the promise of greater scope for growth, there is

justification for having consulting organisations besides CLRI to do full justice to all the facets of leather industry.

11.7 It would be very difficult for a prestigious Research and Development Organisation dealing with macro problems of the entire industry to deal with the micro problems of adhoc nature of individual units. If there be a concentration on one of these, the other would get affected. With its long tradition of being the only R&D organisation for leather industry, CLRI may not effectively substitute for the contemplated new consultancy organisation even after some minor restructuring.

11.8 In this connection, the Committee wishes to refer to the initiatives already taken by the leather industry by establishing the following organisations:

(i) Indian Institute of Leather Products:

To meet the increasing demand for trained manpower with rapid growth of leather products industry, a new training institute by name Indian Institute of Leather Products has been set up in Madras through the sole initiative taken by the private sector. All India Skin & Hide Tanners & Merchants Association (AISHTMA) has contributed Rs. 50 lakhs and a matching grant has come from Indian Bank. Some of the leading firms in the leather sector have also made substantial contributions. The Institute has acquired state-of-the-art-machinery for footwear training courses from July, 93.

(ii) FDDI - Ambur Shoe Technology Centre :

Ambur is a major centre for production of leather and leather footwear. The industry has taken the initiative to form a new training centre under the aegis of National Leather Development Programme (NLDP). The leading footwear manufacturers in the area have contributed machinery and capital required for the institute. The institute has already started running short-term training courses in footwear fabrication.

11.9 The Committee considers that the objectives of the proposed new organization should be as follows ;

- i. Undertake applied and operational research on problems of particular interest to leather industry;
- ii. make available to its member units results of research, improvement of quality, reduction in cost and development of new production techniques;

- iii. render consultancy service to individual units on ad-hoc problems relating to production planning, production control, upgrading of raw materials, HRD, industrial engineering, quality, effluent treatment;
- iv. conduct training programmes for Supervisors and Executives in matters relating to unit management like production planning, production control, quality assurance, preventive maintenance, effluent treatment, fund management, cost reduction;
- v. conduct training programme for workmen in the local language;
- vi. collect and collate production data from the member units and disseminate them to member units. Leather industry by and large does not believe in sharing of information. This is probably because even today the industry comprises a large number of proprietary and partnership concerns. It is time this attitude is changed, sooner the better. Sharing of information and experience ensures that everyone need not learn the costly way by of making the same mistakes what others have done. A management consultancy organisation sponsored and managed by the industry will certainly help in the sharing of information and experience in the industry.

11.10 The new organisation being promoted and managed by industry itself may make the organisation quite accessible to every member and foster a close link between the individual units and the new organisation.

11.11 The Committee gives briefly the contours of the new organisation.

- i. There can be more than one organization one for the South at Vellore, very near the tannery centres of Vaniyambadi, Ambur and Ranipet, one near Kanpur and the third near Calcutta;
- ii. Each one of the units can be a society under the Societies Registration Act with a Managing Committee consisting of fifteen members;
 - (a) of the fifteen, nine will be elected by the members and for each of the following categories, viz., tanneries three, full shoes units one, shoe upper units one, leather garments unit one and three to represent the associations who are corporate members;
 - (b) the six ex-officio members will be the Director of the organisation, Director CLRl or his nominee, Executive Director CLE or his nominee, a representative from the Directorate of leather from GOI, Director of Industry of the State Government or his nominee and a representative from SIDBI;
 - (c) Chairman will be elected by the non-official members from amongst them.

- iii. There will be an Executive Committee of five with the Chairman, two from the ex-officio members and two from the elected members;
- iv. There will be two categories of membership;
 - (a) Corporate Membership open to association of leather industry;
 - (b) Individual Members. Industrial units which are either tanneries or manufacturers of any of the leather products.
- v. There will be an entrance fee and an annual fee. The entrance fee will be a lumpsum for all. The annual fee will be a lumpsum for corporate members and for individual members a percentage of the annual sales, subject to a maximum;
- vi. The organisation will be given an annual grant from the Leather Development Fund which the Committee has proposed elsewhere in the report. LDF will make a machinery grant of three times the amount of subscription collected by these institutions.

11.12 Global Trends:

In this connection, the following extracts on Global Trends from the Report of the Business-cum-Official Delegation to Honkong, South Korea, Japan and Singapore in May, 1983, sponsored by CLE under National Leather Development Programme, Madras, could be relevant.

*In the field of leather processing, shoe making, manufacturers of garments, leather goods and accessories, production activity in the advanced countries has considerably declined over the past two decades mainly due to the increased cost of production which was caused by rising wages in these countries. This has had two distinct effects; in the first place, many of the manufacturing units which had become uncompetitive, had shifted their production activities to low cost production bases. Secondly, a large percentage of the demand for various leather products such as shoes, leather goods and accessories in these countries had been met by imports. As a matter of fact, imports accounted for between 70 and 90% of the domestic consumption of various such products in the advanced countries. Interestingly, the countries that reigned supreme in the 1970s and 80s in the global market for various leather products-countries like Taiwan, South Korea and Italy are fast becoming uncompetitive, again for the same reasons and these too have started moving their production bases to low cost countries. In the

result, China, Indonesia, Thailand, Malaysia and Vietnam in the South & South East Asia and Portugal and Turkey in the EEC, have become favoured locations for setting up of such manufacturing facilities. China undoubtedly has taken a lead over all others attracting a good deal of investment in these and allied industries primarily from, Taiwan and South Korea".

11.13

Thus a large vista of opportunity is open to Indian leather industry in the global market. To take full advantage of the opportunities and get a 10% share of the global market in leather and leather products by 2000 AD, every leather unit in India should have ready access to a professional body for advice and guidance. In the Committee's view, setting up of consultancy organisation to handle problems of adhoc nature relating to production, management, marketing and training, in two or three regions in the country to be promoted and managed by the industry in that area would greatly assist the efforts of the leather industry and supplement the work of CLRI. In this era of liberalisation, every industry, as already being done by Engineering Industry, should concern itself directly in its growth and well-being, instead of solely depending upon Governmental organisations. The initiative, of course, will have to come from leather industry and their needed encouragement and support from all those interested in the well being and growth of Indian Leather Industry.

CHAPTER - 12

LEATHER DEVELOPMENT FUND

12.1 Almost all Committees and Leather Associations invariably point out that our bank interest rates being high compared with what are obtaining in other countries, Indian exporters are at a price disadvantage in the International competition. Reduction in interest rate need not necessarily mean getting a price advantage in overseas market, as foreign buyers who are well-informed about Indian Industry, take into account all items of inputs costs, while negotiating prices. Besides, comparing the lending rates of other countries with ours may not give a good comparison without comparing the deposit rates of those countries with ours. This is so because there is close linkage between the lending rates and deposit rates. Determination of interest rates is governed by various factors like lendable resources of banks, quantum of loans with concessional rates of interest, profitability consideration of the bank etc. In any case, RBI is fully aware of the demand and need for bringing down the interest rates. RBI is taking positive steps in this direction as in recent months, there has been reduction in the interest rates three times.

12.2 The Committee did a quick analysis of the variations in several input costs in the leather industry in recent times. The share of raw material in the total input costs varies from about 55% for full shoes to about 67% for tanneries, and 79% for industrial gloves and about 88% for leather garments, and that of interest forms only 4% for leather garments and 7% for each of the others of the input cost. Actually, it could be seen that the price of raw materials has been continuously showing an upward trend. With the close linkage between the raw material suppliers and the manufacturers the price rise in raw material passes off as a normal phenomenon of market forces. As the raw material price forms 65% to 88% of input costs, a small increase in the raw material price has a greater impact on production cost than a significant increase in interest rate which forms 5 to 7% of production cost. The burden of the interest rate is felt when the instalments are not paid as that leads to a spiral increase due to interest on interest, penalty and damages. For a unit which is viable and pays its quarterly instalment of term loan regularly, the price rise in raw material imposes a greater adverse impact on projects than even a significant rise in interest rate. The Committee is of the view that adequacy of working capital and timely release of funds are far more important for the success of a unit than high interest rates. The first and foremost step that should be taken is that the quantum of working capital should be adequate and released timely. Efforts should however be made to ensure that the price rise in raw

material does not register abnormal increase by maintaining its easy availability through imports.

Further, the industry could and should adopt several cost reduction measures, like having optimum inventory thereby cutting down carrying costs, reducing the manufacturing cycle, adopting cellular system in the shoe manufacture which will increase productivity and reduce the labour cost per pair of shoes, introducing Total Quality Management resulting in reduction in rejection and rework thereby increasing the profits. The Committee would like to lay utmost stress on the cost reduction measures and quality improvement methods.

12.3 The Committee is of the view that there is a limitation on the banks to give concessional rates of interest. In the present context, concession to industry will have to come from outside the banking system mainly. In this background, the Committee recommends the setting up of a Leather Development Fund (LDF) from regular annual contributions from GOI, RBI and IDBI.

12.4 The contribution to the fund will be as follows:

(a) (i) GOI: At present the export incentive is given on gross foreign exchange earning to individual units. Thus a unit whose net foreign exchange earning is 10% of the gross and another whose net earning is say, 60% of the gross are treated alike for the purpose of incentive. To encourage the support to indigenous supplies and prudent use of foreign exchange, special incentive linked to the foreign exchange earning should be provided for the industry as a whole. It could be a percentage of the net foreign exchange earnings of the year, varying between 2.5% to 5%.

(ii) According to the Council for Leather Exports, export earnings and value of imports by the leather industry in each of the latest three years for which data is available are as follows:

TABLE - 9

Rs in Millions

| Sl No | Year | Export earnings | Value of Imports | Net value of export earnings |
|-------|---------|-----------------|--------------------|------------------------------|
| 1. | 1989-90 | 20,300 | 3306.15 (16.29) | 16,993.85 (83.71) |
| 2. | 1990-91 | 25,536 | 4155.36 (16.28) | 21,380.64 (83.72) |
| 3. | 1991-92 | 32,147 | 3606.78 (11.22) | 28,540.24 (88.78) |

(Figures in brackets give the percentage to the export earnings)

(iii) One percent of the average of net foreign exchange for the last three years comes to Rs 22.32 crores. Allowing for the larger volume of exports and increased quantum of import, due to liberalisation, a one percent of net import could be assumed around Rs 25 crores, thus the total annual accretion to the Fund at 2.5% of the net foreign exchange earnings will be in the order of Rs 125 crores.

(b) RBI, the Central Bank of the country should make a contribution equivalent to 50% that of Government of India.

(c) IDBI, the Apex Development Bank of the country should also make a contribution equivalent to 50% that of Government of India.

12.5 The fund could be deployed to give grants for certain specific purposes and as loan at concessional rate for certain other purposes.

(a) Grants:

(i) To reimburse the banks for the difference between the rate of interest on export finance the banks can afford and the desirable concessional rate of interest.

(ii) Annual grant to the consultancy organisation to be set up by the industry to tackle adhoc problems faced by individual units, at five times the contributions collected by the organisation from the industry in the first year, four times in the second year and three times in subsequent years.

(iii) Make grants for specific R&D problems.

(iv) Make grants for field services relating to the leather industry.

(v) Make a one time grant of Rs. 10 lakhs to units that have obtained an ISO -9000 Standards Certification.

(b) Loans:

(i) Provision of risk capital on long term basis for units under rehabilitation at an interest equivalent to the bank rate to meet expenses for repairing and reconditioning of the existing machinery, repairs to the factory building and acquiring balancing equipment, subject to a ceiling per unit say, Rs. 1 crore.

(ii) Loan for capital expenses at the Bank Rate of interest, for effluent treatment plants, to be recovered from the beneficiaries in easy instalments. It is needless to stress

that schemes for effluent treatment are dragging for want of funds.

- (iii) Provision of fund for modernisation of units, subject to a ceiling of Rs. 5 crores for any single unit, at an interest of Bank Rate. The loan shall have an initial holiday period of 2 years and repayable in seven years. If a unit requires more than Rs. 5 crores, its rehabilitation could be done in phases.
- (iv) In tannery, both in regard to number of units and capacity SSIs form around 80% of the total. In respect of leather products/goods SSIs have their significant presence. Committee is therefore keen that the eligible assistance from the LDF should be made available to small scale units, particularly the tiny units and the smaller of small units. Because of their numbers and spread, it may be difficult for LDF to do direct lending in these cases. The Committee, therefore, suggests that LDF may resort to indirect lending to SSI units. SIDRI could be used for the purpose to do the lending for SSIs and also for the monitoring and the recovery of such loans. The interest however to the borrower should be the same as in the case of direct lending, viz., the Bank Rates.

12.6 (a) The Board of Management of LDF could be as follows:

1. Chairman: an experienced person in Industrial Management, to be wholetime;
2. Rep. of RBI;
3. Rep of IDBI;
4. Rep. of CLRI;
5. Rep of CLE;
6. Rep. from Ministry of Commerce;
7. Director, Leather DC SSI, Union Ministry of Industry;
8. } Representatives from the first three of the banks
9. } with the largest lending to
10. } Leather industry, as recommended by RBI.
11. Rep. from Government of Tamil Nadu;
12. Rep. from Government of West Bengal;
13. Rep. from Government of Uttar Pradesh;
14. }
15. } Experienced Leather Technologists;
16. }
17. }
18. } Rep. of Leather Associations;
19. }
20. | Two representatives from two of the State Leather
21. | Development Corporations

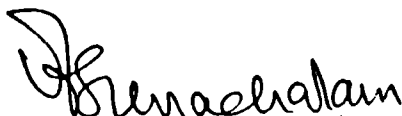
- 2.7 The Board of Management can meet once in six months, its main functions will be;
- (i) to lay the policy and norms to be followed in assisting industry;
 - (ii) review the status of leather units;
 - (iii) formulate the programme of work for the year;
 - (iv) determine the budget;and
 - (v) review the functioning of the unit/organisation assisted by the Fund;
 - (vi) commission specific study on leather industry by CLRI.
- 12.8 (i) There should be a Management Committee, a compact body, that will sanction loans/grants to specific schemes within the policy frame-work laid down by the Board of Management and formulate new schemes for the consideration of the Board of Management.

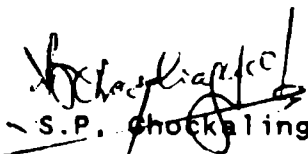
The composition of the Management Committee will be out of those in the Board of Management, as hereunder:

1. Chairman of the Board of Management;
2. Rep. of RBI
3. Rep. of IDBI;
4. Rep. of CLRI;
5. Rep. of CLE
6. Rep. from Ministry of Commerce;
7. Director, Leather DC SSI, Union Ministry of Industry;
8. Rep. of one of the Banks;
9. One of the Leather Technologists;
10. Rep. of one of the Leather Associations;
11. Rep. from one of the State Leather Development Corporations.

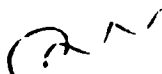
- (ii) The tenure of the Members of the Management Committee except the Chairman, Representatives of RBI, IDBI, and CLRI will be one year. The tenure of the Members of the Board of Management will also be three years except for the representatives from the Leather Technologists, Leather Associations and Banks, for whom it will be one year only.
- (iii) Any grants from foreign agencies to leather industry should be routed through this Fund.



M.G. Balasubramanian
Chairman


S. Arunachalam


S.P. Chockalingam


P. Prabhakaran


S. Thiagarajan


B.V. Deenadayalu

**
A. Sahasranaman

*
A. Hafeezur Rahman

**
K. Seshagiri Rao
(Subject to the note
appended to his report)

**
Avtar Singh

**
S. Nazar Mohamed

**
Sanjoy Sen


B. Ramani Raj
Member-Secretary

Note: There has been no response from the following Members, to whom both the Draft Report and Revised Draft Report been sent, regarding signing of the report:

P.D. Gupta K.C. Ganjwal
E.N. Murthy and D.K. Seth

Have authorised the Chairman and the Member-Secretary to sign the Report on his behalf.

ADDENDA TO THE REPORT

'Limitations of the Report' as mentioned by Shri K.Seshagiri Rao in his letter LECO\93\380 dt. 28th December 1993 to the Chairman of the Committee.

"1. The causes for the sickness as reported from the major banks and also state financial institutions are entirely relied upon. But the Committee has not visited even a single sick unit nor ascertained the views of the entrepreneurs whose units have become sick.

"2. Apart from the above, the conclusions of the report have not been exposed to the major players of the industry to ascertain their views.

"3. To understand the situation clearly it is necessary to know how many units have become sick after 1974, the year of implementation of Dr.Seetharamiah Committee Report and how many units were sick in the previous decade/s, i.e. prior to 1974. Similarly, whether the sickness is rampant in tanning sector or spread to product sector also. Such analysis is missing in the report.

"4. Creation of a (Private) Consultancy Agency to serve leather and allied industries (para 11.6): if any section of the industry really wants to create an organisation of this type, it can do so as a private organisation with its own resources on commercial lines. In such a case, it does not require the permission of any other agency as it has been spelt out in this para. As this recommendation has nothing to do with the objectives of the Committee, it needs deletion. Further, nowhere in the report it was discussed that due to lack of consultancy services, the sickness of the industry has occurred.

"5. Leather Development Fund; Different committees with different perceptions suggested earlier creation of Leather Development Fund and so also this Committee. While subscribing to this recommendation, I suggest that the scope of the

fund should be broadened to cover functions like - development of raw material base through setting up of modern carcass recovery centres, modernisation of raw material markets, promotion of R&D for improving the quality of hides and skins, support to livestock development apart from lending support to the creation of infrastructural facilities for the benefit of the leather industry. To fulfil the objectives of the broad based Leather Development Fund - wider representation in the constitution of the Board of Management to the industry, government organisations, livestock development agencies and R&D institutions is necessary. In my view, the committee constituted solely to look into the problems of sick units need not specify the composition of the committee and also its management pattern. This may be left to another committee to dwell upon various functions of the proposed leather development fund and also to suggest operational mechanisms."

APPENDIX

**RESERVE BANK OF INDIA
CENTRAL OFFICE
BOMBAY**

NOTIFICATION

**Constitution of a Committee to
study the problems of sick/weak
units in leather industry and
suggest measures to overcome them**

The Reserve Bank of India has been exhorting banks and financial institutions to adopt a systematic approach for preventing sickness in industrial units and for expeditious rehabilitation of the units which may become sick but are viable. In this connection, the Reserve Bank had issued detailed guidelines including reliefs/concessions that could be considered for sick/weak industrial units. Of particular importance is the leather industry in the country, which is not only a major foreign exchange earner and has been identified as thrust area for exports but also has a considerable potential for employment. It has, therefore, been decided in this context to appoint a Committee to undertake an indepth study of the reasons for sickness, the steps that may be necessary to prevent such sickness and the measures necessary for revival/rehabilitation of sick/weak units.

2. The Committee will consist of the following members:

- | | |
|---|-----------------|
| 1. Shri.M.G. Balasubramanian, (formerly of Indian Administrative Service) 15, 1V Seaward Road, Valmiki Nagar, Thiruvanmiyur, Madras. | Chairman |
| 2. Shri.S.P.Chockalingam, General Manager, (Commercial and Inter- national Banking), State Bank of India, Local Head Office, Madras. | Member |
| 3. Shri.B.V.Deendayalu, Deputy General Manager, Bank of Baroda, South Zone, Alwarpet, Madras. | Member |

- | | |
|--|--------|
| 4. Shri.S.Arunachalam, General Manager, Management Services, Indian Bank,Central Office, Madras. | Member |
| 5. Shri.S. Thiagarajan, Deputy General Manager, Small Industries Development Bank of India, Southern Regional Office, Madras. | Member |
| 6. Shri.K.C.Ganjwal, Director, Ministry of Commerce, Govt.Of India, New Delhi. | Member |
| 7. Shri E.N.Murthy, Joint Secretary, Department of Industrial Development, Ministry of Industry, Govt.of India, New Delhi. | Member |
| 8. Shri.D.K. Seth, Director (Leather), Office of the Development- Commissioner, SSI, Ministry of Industry, Govt.of India, New Delhi. | Member |
| 9. Shri. A. Sahasranaman, National Programme Manager, Leather Sector Programme, United Nations Development Programme, New Delhi. | Member |
| 10. Shri.P.Prabakaran, Executive Director, Council for Leather Exports, Madras. | Member |
| 11. Shri.K.Seshagiri Rao, Deputy Director and Head of the- Economic Research Division, Central Leather Research Institute, Adyar, Madras. | Member |
| 12. Shri.A.Hafeezur Rahman,* Member of Executive Committee, The All India Skin and Hide- Tanners and Merchants Association, "Leather Centre", 53, Sydenhams Road, Madras. | Member |

* Alternate member is Shri N.M.Zackariah, Member of the Executive Committee.

13. Shri.P.D.Gupta, Managing Director, Member
Liberty Footwear Co.,
4/42,Punjabi Bagh,
New Delhi.
14. Shri. Avtar Singh, Member
Managing Director,
Aero Traders Pvt.Ltd.
Karol Bagh,
New Delhi.
15. Shri. Sanjoy Sen, Member
President,
Indian Leather Technologists'
Association,
Mercantile Buildings, 1st floor, East Gate,
9, Lall Bazaar Street,
Calcutta.
16. A representative from Member
Tanner's Federation of India,
14/69, Civil Lines,
Kanpur.
(Shri S.Nazar Mohamed was the representative
nominated by the Federation)
17. Shri.B.Ramani Raj, Member-secretary
Joint Chief Officer,
Industrial & Export Credit-
Dept.,
Reserve Bank Of India,
Central Office,
Bombay.

Shri. S. John, Joint Chief Officer, Rural Planning and
Credit Department, Reserve Bank of India, Central
Office, Bombay, will attend the meetings of the
Committee as "Observer".

3 The terms of reference of the Committee will be as
under;-

- i) To study the problems of leather industry,
especially sick/weak units.
- ii) To suggest suitable measures which may be taken by
banks/financial institutions, State Govts., and
Central Govts., and other agencies to overcome
these problems.
- iii) To make recommendations for a comprehensive
revival/rehabilitation package in respect of
sick/weak units in leather industry.
- iv) To make recommendations on the prevention of
sickness and the sustained growth of the leather
industry.

- v) To make recommendations on any other related matter as the Committee may consider necessary.
4. The Secretariat of the Committee will be Industrial & Export Credit Department in Reserve Bank. The Committee should endeavour to submit its report within a period of six months.

(D.R Mehta)
Deputy Governor
3.12.1992

The life of the Committee was extended in three spells upto 31.12.93.

In place of Shri S.John, Shri A.Boothalingam, Deputy Chief Officer, RBI, Madras was appointed as Resource Person.

The Committee held five meetings of which Sarvashri M.G.Balasubramanian, B.V.Deenadayulu, and S.Arunachalam attended all the five meetings;

Shri B.Ramani Raj attended four meetings;

Sarvashri S.P Chockalingam, S.Thyagarajan, A.Sahasranaman, K.Seshagiri Rao, A.Hafeezur Rahman, and S.Nazar Mohamed attended three meetings;

Sarvashri P.Prabhakaran and Avtar Singh attended two meetings;

Sarvashri D.K.Seth and P.D.Gupta attended one meeting;

Sarvashri E.N.Murthy, K.C.Ganjwal and Sanjoy Sen did not attend any meeting.

From: The Member-Secretary

Dt:

**To:
The Individual Units.
(list with Member-Secretary)**

Sir,

Sub:RBI Committee on Sick/Weak Leather Units.

Reserve Bank of India has constituted a Committee to study the problems of sick and weak units in leather industry and to suggest measures to overcome them. Shri. M.G.Balasubramanian is the Chairman of the Committee and Shri B.Ramani Raj, Joint Chief Officer, RBI is the Member-Secretary. Members of the Committee are representatives from State Bank of India, Bank of Baroda, Indian Bank, Small Industries Development Bank of India, Leather Industry, Central Leather Research Institute, Council for Leather Exports, United Nations Development Programme, Union Ministry of Industry and Union Ministry of Commerce.

The Committee welcomes your suggestions in regard to the general issues pertaining to the leather industry in matters like measures:

- (a) (i) to revive and rehabilitate sick/weak units that have export potential;**
- (ii) to minimise sickness in leather industry;**
- (iii) to ensure the sustained growth of leather industry;**
- (iv) to improve the share of Indian leather products/goods in the global market.**
- (b) suggestions in regard to specific research work to be undertaken to upgrade and improve the quality of Indian leather/leather products;**
- (c) any other matter related to the well-being of the Indian Leather Industry.**

Attached to this letter is a questionnaire which you may kindly fill up and send it to me by the 15th March 1993. A copy of the reply may also to be sent to the Chairman, to the following address:

**Shri M.G. Balasubramanian,
25, Second Floor,
Fourth Trust Cross Street,
Mandavelipakkam,
Madras -600026.**

The receipt of this letter may kindly be acknowledged through the acknowledgment card attached to this letter.

Thanking You,

Yours faithfully,

Encl: as above

ed. (Member -Secretary)

**QUESTIONNAIRE TO BE ANSWERED BY UNITS IN
LEATHER INDUSTRIES IN NEED OF REHABILITATION**

A. General:

- i. Name of the Firm/Company
- ii. Address of the business office of the Firm/Company
- iii. Location of the Factory
- iv. Name of the Partners/Directors
- v. Name of the Chief Executive
- vi. Licensed Capacity
- vii. Installed Capacity
- viii. Name of the assisting bank
- ix. Name of the assisting Financial Institution

B. Capital Assets:

I. Factory:

| | | | | | |
|----------------|--------|------------------------------|--------------|---|---|
| (a) Land | Extent | Book Value | | Market value as on 30.9.92 | |
| (b) Building | Area | Book value | Market value | Amount needed to bring it to good repairs | |
| (c) Machinery: | | | | | |
| | S.No. | Description of the Machinery | Book value | Market value | Amount required for repairs/re-conditioning |

(A) Indigenous:

(B) Imported:

II Non-Factory

| | | | | |
|--------------|--------|------------|--|----------------------------|
| (a) Land | Extent | Book Value | | Market value as on 30.9.92 |
| (b) Building | Area | Book Value | | Market Value as on 30.9.92 |

C. Financial Particulars:

i. Term Loan:

Amount sanctioned date-wise:

Amount repaid year-wise:

| Amount outstanding as on 30.9.92 | Principal | Interest |
|---|------------------|-----------------|
|---|------------------|-----------------|

ii. Working Capital:

Amount Sanctioned:

| Amount outstanding as on 30.9.92 | Principal | Interest |
|---|------------------|-----------------|
|---|------------------|-----------------|

iii. Sundry debtors as on 30.9.92:

Total amount outstanding:

Local

Foreign

List out the names and amounts outstanding in regard to the ten largest debtors:

Number of debtors age-wise:

Age

a) Local

| | |
|-----------------------|-----------------------|
| | < 3 months |
| > 3 months | < 6 months |
| > 6 months | < 12 months |
| > 12 months | |

(b) Foreign

| | |
|----------------------|----------------------|
| | < 3 months |
| >3 months | < 6 months |
| >6 months | <12 months |
| >12 months | |

iv. Sundry Creditors as on 30.9.92:

Total Amount Outstanding:

Local

Foreign

List out the names and amounts outstanding in regard to 25 largest creditors age-wise giving the details in each case regarding the materials purchased. Amongst the 25, local and foreign may be segregated and age-wise distribution given for local & foreign separately.

Age

| | |
|-----------------------|-----------------------|
| | < 3 months |
| > 3 months | < 6 months |
| > 6 months | < 12 months |
| > 12 months | |

D. Pending litigation, with brief details:

- i. Sales-tax
- ii. EPF Act
- iii. ESI Act
- iv. Pollution Control Act
- v. Civil case by assisting bank
- vi. Civil case by assisting Financial Institution
- vii. Civil case by creditors/others
- viii. Payment of Wages Act
- ix. Minimum Wages Act
- x. Factories Act
- xi. Any other enactment

E. What is the present position regarding the working of the unit, viz., whether partially working, fully closed, on the point of being closed, with causes for sickness:

- i. Diversion of working capital
- ii. Inadequacy of working capital
- iii. Dissension amongst promoters
- iv. Rapid turnover of employees
- v. Return of goods by foreign buyer
- vi. Delayed payment by foreign buyer
- vii. Any other cause, specify

F. Surplus Capital Assets:

i) Land* Extent Market Value as on
30.9.92

ii) Machinery:**

| Description | Number | Condition of Machinery | Market Value as on 1.10.92 |
|-------------|--------|------------------------|----------------------------|
|-------------|--------|------------------------|----------------------------|

- * Not required for the next ten years.
** Not required for the next five years.

G. Stock on Hand:

Raw Materials:

| S.No. | Description | Age of the material | Condition of the material | Estimated amount realisable on disposal |
|-------|-------------|---------------------|---------------------------|---|
|-------|-------------|---------------------|---------------------------|---|

1. Finished Goods

2. WIP

3. Chemicals

H. i. Does the present arrangement of effluent disposal in your unit conform to the provisions of the Pollution Control Act? Yes/No

ii. If no, what do you propose to do for the proper disposal of the effluent.

I. If you have been having a dialogue with your bank/financial institution for a revival/rehabilitation programme for your unit, please give chronologically the particulars of formulation and consideration of your proposal by the bank/financial institution, as hereunder:

FINANCIAL INSTITUTION:

Give date-wise, the gists of:

- i. your proposal;
- ii. the response of the Financial Institutions;
- iii. gist of discussions at each of the meetings held; and
- iv. any other relevant correspondence exchanged between your unit and the Financial Institution. Your reasons for the failure of your proposal to click with the Financial Institution may also be given.

ASSISTING BANK:

Give date-wise, the gists of :

- i. Your proposal;
- ii. the response of the Bank;
- iii. gist of discussions of each of the meetings held; and
- iv. any other relevant correspondence exchanged between your unit and the Bank. Your reasons for the failure of your proposal to click with the Bank may also be given.

J. Can your unit, in your considered view, be revived as a viable unit? Yes/No

K. If the answer to 'J' above is yes, please give your proposal for revival/rehabilitation. Specify what you expect by way of support/assistance from the Government, both Centre and State, assisting bank, assisting financial institution, any other Government Agency. Your revival proposal must cover the following points also:

- Whether you are in a position to assemble the requisite number of qualified executives, supervisors and workmen;
- Whether you can ensure an uninterrupted supply of raw materials;

- The amount required for bringing the existing machinery to working conditions;
- A sick unit under revival/rehabilitation has to work more efficiently than a normal unit as it has to meet not only its current liabilities but also the past accumulated liabilities. The proposal should therefore clearly spell out the special efforts that would be mounted to ensure cost reduction through inventory control, reduction of manufacturing cycle, reduction of rejects and rework etc;
- Banks and financial institutions being in commercial business cannot be expected to make financial sacrifices beyond their capacities. Your proposal may therefore consider whether the revival/rehabilitation scheme may incorporate a pattern of assistance that will ensure concessions during the period of rehabilitation/revival and once the turn around takes place and viable working is established, the banks and institutions could recoup over a reasonable period, the amount of cash concessions extended by them;
- The revival/rehabilitation proposal should estimate the fresh assistance required by way of term loan and working capital assistance, indicating the margin amount you would be able to bring in for the fresh capital. The term loan requirement is for;

- (i) repair and reconditioning of existing machinery to bring them to working condition;
- (ii) fresh machinery required to replace the old ones, beyond repairs;
- (iii) balancing equipment, if any, required.

You may indicate the time in approximate weeks from the date of commencement of production by which your unit is expected to reach:-

- (i) break-even point
- (ii) maximum production
- (iii) please also indicate the number of wipe off the past liabilities, after they have been scaled down suitably
- (iv) the time it would take for the banks and institutions to recoup amount of the cash concession extended by them.

The proposal should highlight your achievement in regard to export, whether you would be able to re-establish contacts with your old overseas buyers and what prospects you envisage for your unit in the present circumstances. Your forecast of the estimated export earnings may be given year-wise, for the first five years, indicating the factors or development that would adversely affect your unit's export forecast.

LIST OF LEATHER UNITS ADDRESSED

- 1 **Bangalore Leathers & Leathercrafts (P) Ltd.,
65/1, Tannery Road,
Nagarwara,
Bangalore - 560 045.**
- 2 **E.K.MD. Ebraheem Sahib & Sons,
46, Sydenhams Road,
Periamet,
Madras - 600 003.**
- 3 **E.K.M. Ahmeed Batcha Sahib & Sons,
66, Sydenhams Road,
Periamet,
Madras - 600 003.**
- 4 **Egyptian Shoe Factory,
3/29-A, Khandari Road,
Agra - 282 002.**
- 5 **Geekay Leathers,
"KH" House, 2, Hunters Road, Choolai,
Madras - 600 112.**
- 6 **Ghani Abdul Khader & Co.,
No. 8, Kumarappa Chetty Street,
Periamet,
Madras - 600 003.**
- 7 **G.A. Rathinam & Bros.,
98, Savariyar Palayam,
Begampur Post,
Dindigul - 624 002.**
- 8 **G. Abdul Rahman & Co.,
49/1, Wuthucattan Street,
Periamet,
Madras - 600 003.**
- 9 **Haggarams Impex Trading Group Pvt. Ltd.,
13/A, Kolum Tannery,
Nagalkeni,
Madras - 600 044.**
- 10 **Ibrahim Rahman & Co.,
62, McNichols Road,
Chetpet,
Madras - 600 031.**
- 11 **Pearl Leather Industries,
Kattumony,
Chromepet,
Madras - 600 044.**

- 12 R.S. Creation,
113 Vepery High Road, (III Floor)
Periamet,
Madras - 600 003.
- 13 Ramnath Exports Ltd.,
A-25, Hauz Khas,
New Delhi - 110 016.
- 14 S.D.Lakshmi & Co.,
No. 26, Covelong Muthugramani Street,
Periamet,
Madras - 600 003.
- 15 Shridar & Company,
J 3& 4, Govt. Industrial Estate,
Madhavaram,
Madras - 600 060.
- 16 South East Footwear Ltd.,
M.C. Road,
Solur, Ambur,
N.A. Dt. - 635 814.
- 17 Sir Albert,
113/3, Whannels Road,
Egmore,
Madras - 600 008.
- 18 Soccer Tanneries,
Basti Sheikh Road,
Jalandhar - 144 002.
- 19 T.Azeezer Rahman &Co.,
12, Karpura Mudali Street,
Periamet,
Madras - 600 003
- 20 V.M.Abdul Rahman &Co.,
14/A, Vepery High Road,
Periamet,
Madras - 600 003.
- 21 Kaushik Leathers Pvt.Ltd.,
44, Sydenhams Road, (Ground Floor),
Periamet,
Madras - 600 003.
- 22 Kalamkari Designs (P) Ltd.,
138, Beliaghata Road,
Calcutta - 700 015.
- 23 Ledar House,
4, Jayammal Street,
Aminjikalai,
Madras - 600 028.

- 24 Lee Min Tannery,
47, South Tangra Road,
Calcutta - 700 046.
- 25 Leatherex Tanning Industries,
33, Harin Bari Lane,
Calcutta - 700 073.
- 26 Leder Fabric,
2, Suhrawardy Avenue,
Calcutta - 700 017.
- 27 M.S. Abdulla Basha & Co.,
1, Perianna Maistry Street,
Periamet,
Madras - 600 003.
- 28 Mahalakshmi Leather Corporation,
6, Sami Mudali Street,
Periamet,
Madras - 600 003.
- 29 Mohamed Ismail & Co.,
No.13, Kumarappa Chetty Street,
Periamet,
Madras - 600 003.
- 30 Madras Leder Garments,
91, Moore Street,
Madras - 600 001.
- 31 N.K.Yahya Gani & Co.,
47, Sydenhams Road,
Periamet,
Madras - 600 003.
- 32 Kapurthala Northern India Tanneries Ltd.,
Sultanpur Road,
Kapurthala - 144 601.
- 33 Shamlal & Sons,
128/E 176, Kidwai Nagar,
Kanpur - 208 001.
- 34 Footprint,
Mantela,
Agra - 282 003.
- 35 Hore Cottage Industries,
66-B, Dr. Suresh Sarkas Road,
Calcutta - 700 014.
- 36 United Sales Corporation,
66, Industrial Area, Phase-I,
Chandigarh - 160 002.

- 37 Bihar Finished Leather Ltd.,
62 - D, Srikrishnapuri,
Patna - 800 001.
- 38 M/s. Raj Leather Pvt. Ltd.,
10, East High Court Road,
Ramdaspath,
Nagpur - 440 010.
- 39 M/s. G.M.Asiam & Co.,
2, Perianna Maistry Street,
Madras - 600 003.
- 40 Allied Tannery,
Jajmau,
Kanpur - 208 010.
- 41 Punjab Tanneries Ltd.,
Nakadar Road,
Jalandar,
Punjab - 144 001.
- 42 Harayana Tanneries Ltd.,
Jind
Haryana - 126 102.
- 43 West Bengal Leather Industries Development
Corporation - Common Facility Centre,
Pagladanga Road,
Calcutta - 700 015.
- 44 Rajasthan States Tanneries Ltd.,
Tonk,
Rajasthan - 304 001.
- 45 Hyderabad Tanneries Ltd.,
Darga Hussain Shawali,
Hyderabad - 500 008.
- 46 Mysore Chrome Tannery,
Mysore Road,
Bangalore - 560 026.
- 47 Gujarat Leather Industries Ltd.,
3001, GIDC Industrial Estate,
Ankheswar,
Gujarat - 393 002.
- 48 Bihar Finished Leather Ltd.,
Barauni,
Bihar - 851 112.
- 49 Bihar Finished Leather Ltd.,
Bettiah,
Bihar - 845 438.

- 50 Bihar Finished Leather Ltd.,
Muzzafarpur,
Bihar - 842 001.
- 51 Small Tannery (BSLIDC Unit)
Bihta, Patna (Dist),
Bihar - 801 103.
- 52 Small Tannery (BSLIDC unit)
Sakri, Madhubani (Dist),
Bihar - 847 239.
- 53 Model Tannery (BSLIDC Unit)
Bettiah,
Bihar - 845 438.
- 54 Model Tannery (BSLIDC Unit)
Hiranpur,
Sahabganj (Dist),
Bihar - 816 104.
- 55 Model Tannery (BSLIDC Unit)
Gumla,
Gumla (Dist),
Bihar - 835 207.
- 56 Model Tannery (BSLIDC Unit)
Jehanabad,
Jehanabad (Dist),
Bihar - 804 408.
- 57 Model Tannery (BSLIDC Unit)
Siwan,
Siwan, (Dist),
Bihar - 841 226.
- 58 Model Tannery (BSLIDC Unit),
Latehar,
Palamau (Dist),
Bihar - 829 206.
- 59 Vanzinad Leathers Ltd.,
Kuttipuram Malappuram (Dist),
Kerala - 679 571.
- 60 TALCO Tanery
Vinnamangalam
Minnur (PO), Vaniambadi,
N.A. Dist. - 635 807.
- 61 Titlagarh Tannery,
(Unit of Orissa Leather Corpn.),
Titlagarh - 767 033
Bolangir (Dist)
Orissa.

- 62 Boudh Tannery
(Unit of Orissa Leather Corpn.),
Boudh,
Phulbani, (Dist),
Orissa.
- 63 Wet Blue Tannery
(Unit of Orissa Leather Corpn.),
Chikaguda, Rayagada - 765 001
Koraput (Dist),
Orissa.
- 64 LIDCOM Tannery,
Beed, Aurangabad Dist.,
Maharashtra.
- 65 Shaltong Tannery
Srinagar.
- 66 J&K Tannery,
Muthi Village,
Jammu.
- 67 TAFCO
(Govt. of India Undertaking)
Civil Lines
Kanpur - 208 001.
- 68 M/s. Sethu Exports & Agencies,
14, Vepery High Road,
Madras - 600 003.
- 69 M/s. Sarup International,
P.O. Ramdasoura,
Nakodar Road,
Jalandhar - 144 003.
- 70 M/s. V. Guruviah Naidu & Sons,
11 Varasidhi Vinayagar Koil Street,
Madras - 600 003.
- 71 Bagrian Shoes Ltd.,
Village Bagrian
District Sangrur
Punjab - 146 001.
- 72 Tamil Nadu Skins Corporation,
113, Vepery High Road,
Madras - 600 003.
- 73 Mayfair Leather Industries Ltd.,
B/2, MIDC Industrial Area,
Badlapur,
Thane,
Maharashtra.

- 74 Dagupathi Shoe Co.,
5/13 Poonamallee High Road,
Madras - 600 003.
- 75 Malack Leathers,
Ranipet - 632 401.
- 76 Rashi Leathers Pvt,Ltd.,
46 Sydenhams Road,
Madras - 600 003.
- 77 Arvind Leather Exports (Pvt.)Ltd.,
113, Vepery High Road,
Madras - 600 003.
- 78 M.S.Mohamed Siddique & Co.,
19 V.V Koil Street,
Madras - 600 003.
- 79 Mecca Tanning Co.,
401/7 Tiruneermalai High Road,
Pallavaram,
Madras - 600 043.
- 80 P.Khaleelurrahman,
6, Vepery High Road,
Madras - 600 003.
- 81 Mallack Leathers Group,
99, Vepery High Road,
Madras - 600 003.
- 82 A.A.Rashid & Co.,
11A, Sydenhams Road,
Madras - 600 003.
- 83 OAK House Pvt.Ltd.,
Bombay Mutual Building,
232, NSC Bose Road,
Madras - 600 001.
- 84 Marsons Tanning Industries,
9-C, Sydenhams Road,
Madras - 600 003.
- 85 M.M Anwarullah & Co.,
37 V.V Koil Street,
Madras - 600 003.
- 86 M.M Khalilullah & Co.,
2, Wuthucattan Street,
Madras - 600 003.
- 87 Intercontinental Leather Ltd,
108, Thambu Chetty Street,
Madras - 600 001.

- 88 Bombay Footwear (Pvt.) Ltd.,
Deonar, P.O. Chembur,
Bombay - 400 088.
- 89 Benil Leather Corporation
5, Naval Hospital Road,
11 Floor, Periamet,
Madras - 600 003.
- 90 Bihar Finished Leather Ltd.,
62-D, Srikrishnapuri,
Patna - 800 001.
- 91 Tannery & Footwear Corporation of India Ltd.,
13/400, Civil Lines,
Kanpur.
- 92 Haryana Tanneries ltd.,
Hansi Road,
Jind.
- 93 A.Mohammed Khasim & Co.,
13-B, Sydenhams Road,
Periamet,
Madras - 600 003.
- 94 C.Mohamed Siddique & co.,
7, Wuthucattan Street,
Periamet,
Madras - 600 003.
- 95 Bharat Skins Corporation,
8, Vepery High Road,
Periamet,
Madras - 600 003.
- 96 The National Tannery Co. Ltd.,
Canal South Road,
Pagladanga,
Calcutta - 700 015.
- 97 R.S.& Sons,
113, Vepery High Road,
Periamet,
Madras - 600 003.
- 98 Chemtex,
146 Basti Nau,
K.Jalandhar - 144 002.
- 99 Darson Kashmir Tanneries,
Srinagar,
Kashmir.

- 100 East Coast Leathers Pvt.Ltd.,
13, Halls Road, Kilpauk,
Madras - 600 010.
- 101 Far East Tanning Co.,
1st Floor, 56 Maddox Street,
Choolai
Madras - 600 112.
- 102 Light Leathers Pvt. Ltd.,
47, Tiruneermalai Road,
Chrompet,
Madras - 600 044.
- 103 Maharashtra Leathers Ltd.,
Suite 57, Aurangabad Ashok,
Dr.Rajendra Prasad Marg,
Aurangabad - 431 001.
- 104 Union Leather Co.,
7, Vepery High Road,
Periamet,
Madras - 600 003.
- 105 South East Tanning Co.,
1-C, Naval Hospital Road,
Periamet,
Madras - 600 003.
- 106 Mysore Chrome Tanning Co.Ltd.,
Mysore Road, N.G.E.F Post,
Bangalore - 560 026.
- 107 The Chrome Leather Co. Pvt.Ltd.,
Chrompet,
Madras - 600 044.
- 108 South East Tanneries Pvt. Ltd.,
71, Ganesh Chandra Avenue,
1st,Floor,
Calcutta - 700 013.
- 109 Punjab Tanneries Ltd.,
Nakodar Road,
Post Box No.602,
Jalandhar - 144 003.
- 110 M.S.Abdulla Basha & Co.,
1, Perianna Maistry Street,
Periamet,
Madras - 600 003.
- 111 Acme Enterprises,
394, Jessore Road,
Calcutta - 700 055.

- 112 A.Ahmed & Co.,
45, Kattur Sadyappan Street,
Periamet,
Madras - 600 003.
- 113 E.K.M. Ahmed Batcha Sahib & Sons,
Peria Agraharam,
Erode 5.
- 114 Ahmed Overseas Corporation,
E2, E.V. Chetty Street,
Periamet,
Madras - 600 003.
- 115 The Allied Tannery
Peach Bagh,
Kanpur.
- 116 Amanullah & Co.,
Gudur,
Nellore Dist., A.P.
- 117 Anoa Leathers Pvt.Ltd.,
204, Embassy Centre,
Ceremonial Boulevard
Nariman Point,
Bombay - 400 021.
- 118 G.M. Aslam & Co.,
2, Perianna Maistry Street,
Periamet,
Madras - 600 003.
- 119 Bengal Reptile Exporting Co.Pvt.Ltd.,
41, Phearse Lane,
Calcutta - 700 073.
- 120 Bremco Exporters,
53/2B, Kishan Garh,
Idgha colony,
Agra - 282 001.
- 121 East Asia Skin Corporation,
20.Tiretta Bazar Street,
Calcutta - 700 073.
- 122 Egyptian Shoe Factory,
30/56, Pipal Mandi,
Agra - 282 003.
- 123 Fab Leathers Ltd.,
7, Lyons Range,
Calcutta - 700 001.

- 124 Footcare Enterprise,
Charm Kala Building,
Hing-Ki-Mandi,
Agra - 282 003.
- 125 E.K.M.Hajee Abdul Jaleel
Sahib & Sons,
Peria Agraharam,
Erode.
- 126 Hore Cottage Industries,
86-B, Dr.Suresh Sarkar Road,
Calcutta - 700 014.
- 127 Indian Tanning Industries
J.K. Rayon Road,
Jajmau,
Kanpur - 208 010.
- 128 International Overseas Exporters,
149, Lower Chitpur Road,
P.O.Box 2321,
Calcutta - 700 001.
- 129 G.A.Jolli,
49, Debendra Chandra Dey Road,
P.O.Tangra,
Calcutta - 700 015.
- 130 Mahalakshmi Leather Corporation,
7, Sami Mudali Street,
Periamet,
Madras - 600 003.
- 131 Mash Leather,
72/4, 'S' Block,
M.I.D.C. Bhosari,
Poona - 411 026.
- 132 Misbahul Haque & Co.,
2, Suhrawardy Avenue,
Calcutta - 700 017.
- 133 M.M.Mohaideen Thumbay & Co.,
226, Angappa Naickan Street,
Madras - 600 001.
- 134 Nandan Exporters
36, Basti Nau,
Jalandhar - 144 002.
- 135 Paragon Tannery
3, Kanitharia Manzil,
Dharavi Cross Road,
Bombay - 400 017.

- 136 Shoe Crafters,
203/204, Madala Udyog Bhawan,
Naigaum Cross Road,
Bombay - 400 001.
- 137 Sree Raja Rajeswari Enterprises,
6, Sami Mudali Stret,
Periamet,
Madras - 600 003.
- 138 Talat International Trading Co.,
40/120, Hospital Road,
Parade,
Kanpur - 208 001.
- 139 Tejoomals,
Block F-25 and 42, New Market,
Calcutta - 700 013.
- 140 Teja Industries
135, Jolly Maker Chamber No.2,
Nariman Point,
Bombay - 400 021.
- 141 Zenelini Leatherwear,
E-43/1, Okhla Industrial Area,
Phase-II.
New Delhi - 100 020.
- 142 Zenith Exporters Ltd.,
19, R.N.Mukerjee Road,
Calcutta - 700 001.

* - Indicates units from which replies to the questionnaire have been received.

© - These three units are included in Bihar Finished Leather Ltd., Srikrishnapuri, Patna. The reply received from the latter covers these three units also.

- Reply to questionnaire promised twice but has not been received so far.

**LIST OF UNITS WHICH HAVE SENT REPLIES TO QUESTIONNAIRE
WITHOUT A REFERENCE FROM THE COMMITTEE**

1. Bihar Tannery
Karbigahia,
Patna - 800 001.
2. Md Basheer & Co
Warrangal,
A.P. - 508 006.
3. Rajan Leather Manufacturing (pte) Ltd,
8, Vepery High Road,
Periamet,
Madras - 600 003.
4. Swami & Co,
71, Sydenham road,
Periamet,
Madras - 600 003.
5. Kasnic India,
E-3, Anna nagar (East),
1st Floor,
Madras - 600 102.
6. Nadeem Leathers,
44, Perianna Maistry street,
Periamet,
Madras - 600 003.
7. S.H.Vatkar & Co,
2868, 'B' ward,
Jawahar Nagar, Kolhapur - 410 012,
Maharashtra.
8. Southern Skin Agencies,
45/A, Barneby Road, Kilpauk,
Madras - 600 010.
9. Avanti Leathers Ltd,
41, Kasthuri Ranga Road,
Alwarpet,
Madras - 600 018.

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Appendix - III

From: The Member-Secretary

Dt:

To:

State Bank of India and
its seven Associate Banks,

All Nationalised Banks,

SFCs of Tamil Nadu, Maharashtra,
West Bengal, Andhra Pradesh,
Karnataka, UP & Delhi,

IDBI,
SIDBI,

Sir,

Sub; RBI Committee on Sick/Weak Leather Units.

Reserve Bank of India has constituted a Committee to study the problems of sick and weak units in leather industry and to suggest measures to overcome them. Shri M.G.Balasubramanian is the Chairman of the Committee and Shri B.Ramani Raj, Joint Chief Officer, RBI is the Member-Secretary. Members of the Committee are representatives from State Bank of India, Bank of Baroda, Indian Bank, Small Industries Development Bank of India, Leather Industry, Central Leather Research Institute, Council for Leather Exports, United Nations Development Programme, Union Ministry of Industry and Union Ministry of Commerce.

The Committee would be grateful to have some statistical data as in the Annexure to this letter and on the following:-

(i) The monitoring system you have formulated to watch the functioning of the unit assisted by you and how far the system has been effective in identifying incipient sickness and initiating timely preventive measures to stem the rot;

(ii) In case of sick units rehabilitated by you, its performance will no doubt be very closely monitored by you to ensure that the rehabilitation package is being implemented as sanctioned by you. The monitoring system designed by you in respect of units under revival/rehabilitation may be given;

(iii) In all cases you must have obtained a detailed project report before sanctioning assistance. Has any study been made by your bank/organisation, at least in respect of sick units, how far the project proposals have been realistic and in what manner there has been deviation between the project proposals and the actual implementation/performance;

(iv) The Committee would greatly appreciate if the Bank/Institution based on its experience, gives its views on the following in regard to Leather Industry:

(a) The measures that should be adopted:-

- i. to revive and rehabilitate sick/weak units that have export potential;
- ii. to minimise sickness in leather industry;
- iii. to ensure the sustained growth of leather industry;
- iv. to improve the share of Indian Leather products/goods in the global market.

(b) suggestions in regard to specific research work to be undertaken to upgrade and improve the quality of Indian leather/leather products;

(c) any other matter related to the well-being of the Indian leather industry.

It will be nice to have your reply before 15th March, 1993. A copy of your reply may kindly be sent to the Chairman of the Committee to the following address;

Shri M.G. Balasubramanian,
No. 25, Second Floor,
Fourth Trust Cross Street,
Mandavelipakkam,
Madras-600028.

The receipt of this letter may kindly be acknowledged through the acknowledgment card attached to this letter.

Thanking You,

Yours faithfully,

Encl; as above

sd. Member -Secretary.

ANNEXURE - III A

DATA REGARDING ASSISTED LEATHER UNITS

- (i) Names of units assisted;
- (ii) Total outstanding of (i) above;
- (iii) Names of sick units as on 30.9.92;
- (iv) Total outstanding of (iii) above;
- (v) Names of units referred to BIFR with the data of reference;
- (vi) (a) Names of units closed as on 30.9.92;
(b) Total outstanding of (vi) (a) above;
- (vii) (a) Names of units under rehabilitation/revival;
(b) Total outstanding of (vii) (a) above;
- (viii) Have the causes of sickness been identified in each case? Yes/No
- (ix) If yes, based on the studying of the cause of sickness, cause-wise distribution of sickness.

Appendix - IV

From: The Member-Secretary

Dt:

To:

**Secretary to Government,
Industries Department of;**

**Tamil Nadu,
Andhra Pradesh,
Maharashtra,
West Bengal,
UP,
Delhi Administration**

Sir,

Sub: RBI Committee on Sick/Weak Leather Units.

.....

Reserve Bank of India has constituted a Committee to study the problems of sick and weak units in leather industry and to suggest measures to overcome them. Shri M.G. Balasubramanian is the Chairman of the Committee and Shri B.Ramani Raj, Joint Chief Officer, RBI is the Member - Secretary. Members of the Committee are representatives from State Bank of India, Bank of Baroda, Indian Bank, Small Industries Development Bank of India, Leather Industry, Central Leather Research Institute, Council for Leather Exports, United Nations Development Programme, Union Ministry of Industry and Union Ministry of Commerce.

The problems facing the units in leather industry in your state would have come to the notice of the State Government. The Committee would be grateful to have the appreciation of the State Government on the problems faced by the leather units and the ameliorative measures already taken or under contemplation, for the revival/well-being of this industry.

The Committee would be thankful to have the suggestions of the State Government in the measures that should be adopted:-

- (a) i. to revive and rehabilitate sick/weak units that have export potential;
- ii. to minimise sickness in leather industry;
- iii. to ensure the sustained growth of leather industry;
- iv. to improve the share of Indian Leather products/goods in the global market.

- (b) suggestions in regard to specific research work to be undertaken to upgrade and improve the quality of Indian leather/leather products;
- (c) any other matter related to the well-being of the Indian leather industry.

It will be nice to have your reply before 15th March, 1993. A copy of your reply may kindly be sent to the Chairman of the Committee to the following address:

Shri M.G. Balasubramanian,
No. 25, Second Floor,
Fourth Trust Cross Street,
Mandavelipakkam,
Madras-600028.

The receipt of this letter may kindly be acknowledged through the acknowledgment card attached to this letter.

Thanking You,

Yours faithfully,

Encl; as above

sd. Member -Secretary.

Appendix - V

From: The Member-Secretary

Dt:

To:

The Trade Organisations.

Sir,

Sub; RBI Committee on Sick/Weak Leather Units.

Reserve Bank of India has constituted a Committee to study the problems of sick and weak units in leather industry and to suggest measures to overcome them. Shri M.G. Balasubramanian is the Chairman of the Committee and Shri B.Ramani Raj, Joint Chief Officer, RBI is the Member - Secretary. Members of the Committee are representatives from State Bank of India, Bank of Baroda, Indian Bank, Small Industries Development Bank of India, Leather Industry, Central Leather Research Institute, Council for Leather Exports, United Nations Development Programme, Union Ministry of Industry and Union Ministry of Commerce.

We have addressed a number of sick units, as in the list* at Annexure-I to fill up a questionnaire as in the Annexure-II**. You may like to advise your members who are not in the list, to send the particulars regarding their unit as in the Annexure-II to the Member-Secretary with a copy to Chairman, to his Madras address.

The Committee welcomes your suggestions in regard to the general issues pertaining to the leather industry in matters like measures:

- (a) (i) to revive and rehabilitate sick/weak units that have export potential;
- (ii) to minimise sickness in leather industry;
- (iii) to ensure the sustained growth of leather industry;
- (iv) to improve the share of Indian leather products/goods in the global market.

- (b) suggestions in regard to specific research work to be undertaken to upgrade and improve the quality of Indian leather/leather products;
- (c) any other matter related to the well-being of the Indian leather industry.

It will be nice to have your reply before 15th March, 1993. A copy of your reply may kindly be sent to the Chairman of the Committee to the following address:

Shri M.G. Balasubramanian,
No. 25, Second Floor,
Fourth Trust Cross Street,
Mandavelipakkam,
Madras-600026.

The receipt of this letter may kindly be acknowledged through the acknowledgment card attached to this letter.

Thanking You,

Yours faithfully,

Encl: as above

sd. Member -Secretary.

* List with the Member-Secretary

** Questionnaire to be sent to the individual units will be attached as Annexure -II, while sending this communication.

LIST OF TRADE ORGANISATIONS

1. Tanners & Hides Merchants' Association
Vizianagaram - 531 203.
2. Tanners & Hides Merchants' Association
Post Box No 231, Eluru.
3. The Mysore State Hides and Skins Merchants and
Tanners Association,
120, Commercial Street, Bangalore - 560 001.
4. All India Footwear & Leather Goods Exporters Association,
77, Mangaldas Road, Bombay - 400 002.
5. Bombay Tanners Association,
247, Dharavi Road, Bombay 400 017.
6. All India Skin & Hide Tanners and Merchants Association,
"Leather Centre", 53, Sydenhams Road,
Madras - 600 003.
7. The Ambur Tanners Association,
Ambur, North Arcot District.
8. Erode Tannery Merchants Association,
Peria Agraharam PO, Erode - 630 005.
9. All India Small Scale Tanners & Exporters Association,
163, Vepery High Road, Periamet,
Madras - 600 003.
10. Indian Leather Finishers Manufacturers &
Exporters Association,
45, Wuthukattan Street, Periamet,
Madras - 600 003.
11. Pallavaram Tanners' Association,
2, Muthugramani Street, Madras - 600 003.
12. South India Tanners & Dealers Association,
Ranipet, N.A. Dist.

13. The Tanners' Association,
Pernambut - 635 810, N.A. Dist.
14. The Vaniyambadi Tanners' Association,
1210, Pt. J. Nehru Road, Post Box No 124,
Vaniyambadi, N.A.Dt.
15. Agra Shoe Manufacturers' Association,
1244, Pili Kothi, Shaiganj, Agra.
16. All India Saddlery Exporters Association, Kanpur.
17. Footwear Exporters Association,
13/392 (5), Civil Lines, Kanpur - 208 001.
18. Hindustan Chamber of Commerce,
Jajmau, Kanpur - 208 010.
19. Kanpur Chappal Manufacturers & Suppliers Association,
90/240, Iftikharabad, Kanpur.
20. South India Leather Goods Manufacturers Association,
184-A, Rasappa Chetty Street, Madras - 600 003.
21. Tanners' Federation of India
14/69, Civil Lines, Kanpur.
22. Calcutta Leather Manufacturers Association,
187, Park Street, Calcutta - 700 017.
23. India Leather Technologists' Association,
Mercantile Buildings (1st Floor East Gate)
Lalbazar Street, Calcutta - 700 001.
24. West Bengal Tanners & Shippers Association,
Royal Exchange, 6, Netaji Subhas Road, Calcutta - 700 001.
25. Indian Leather Industries Association,
India Exchange, 4, India Exchange Place, (7th floor)
Calcutta - 700 001.
26. Indian Leather Products Association,
7/H/3, Hatibagan Road, C.I.T Road,
Paddopukur, Calcutta - 700 014.

27. **Small Scale Leather Industries Association,
c/o, Tejoomals, 7, Sunmill Compound, Lower Parel,
Bombay - 400 013.**
28. **Leather Industry Protection Committee,
4, V.V. Koll Street, Periamet, Madras - 600 003.**
29. **All India Chamber of Footwear exporters,
5-B, Gopala Towers, 25, Rajendra Place,
New Delhi - 110 008.**
30. **Indian Shoe Federation,
7-B, Wellington Estate, 24, Ethiraj Salai,
Madras - 600 105.**
31. **All India Leather Garments Manufacturers &
Exporters Association,
21/2, Vittal Nagar, Chamrajpet,
Bangalore - 560 018.**
32. **Indian Chamber of Leather Industry,
H-1, Zamrudpur Community Centre, Greater Kailash - I,
New Delhi - 110 048.**
33. **Federation of Indian Leather Allied Industries,
1-C, Naval Hospital Road,
Periamet, Madras - 600 003**
34. **Small Tanners Association,
Jajmau, Kanpur - 208 010.**

Appendix - VI

From: The Member-Secretary

Dt:

To
The Director,
Central Leather Research Institute,
Madras - 600 020.

Sir,

Sub; RBI Committee on Sick/Weak Leather Units.

Reserve Bank of India has constituted a Committee to study the problems of sick and weak units in leather industry and to suggest measures to overcome them. Shri M.G. Balasubramanian is the Chairman of the Committee and Shri B.Ramani Raj, Joint Chief Officer, RBI is the Member - Secretary. Members of the Committee are representatives from State Bank of India, Bank of Baroda, Indian Bank, Small Industries Development Bank of India, Leather Industry, Central Leather Research Institute, Council for Leather Exports, United Nations Development Programme, Union Ministry of Industry and Union Ministry of Commerce.

The Committee will be grateful to have CLRI's response to the following:

(i) suggestions on R&D projects leading to cost reduction and quality improvement like reduction in the manufacturing cycle in tanneries, up-gradation of low quality leather, reducing trimming loss on wet blue, and hides/skins:

(ii) how the R&D projects could be financed and organised under the guidance of CLRI;

(iii) the type of technical assistance CLRI can render during the process of rehabilitation/revival of weak/sick units in the leather industry and the terms on which such assistance will be available:

(iv) any suggestion that will be conducive to the well-being and sustained growth of the leather industry.

It will be nice to have your reply before 15th March, 1993.
A copy of your reply may kindly be sent to the Chairman of
the Committee to the following address:

Shri M.G. Balasubramanian,
No. 25, Second Floor,
Fourth Trust Cross Street,
Mandavelipakkam, Madras-600028.

The receipt of this letter may kindly be acknowledged
through the acknowledgment card attached to this letter.

Thanking you,

Yours faithfully,

Encl; as above

sd. (Member -Secretary)

Appendix - VII

From: The Member-Secretary

Dt:

To:
Executive Director,
Council for Leather Exports,
53, Sydenhams Road,
Madras - 600 003

Sir,

Sub: RBI Committee on Sick/Weak Leather Units.

Reserve Bank of India has constituted a Committee to study the problems of sick and weak units in leather industry and to suggest measures to overcome them. Shri M.G. Balasubramanian is the Chairman of the Committee and Shri B.Ramani Raj, Joint Chief Officer, RBI is the Member - Secretary. Members of the Committee are representatives from State Bank of India, Bank of Baroda, Indian Bank, Small Industries Development Bank of India, Leather Industry, Central Leather research Institute, Council for Leather Exports, United Nations Development Programme, Union Ministry of Industry and Union Ministry of Commerce.

As an organisation closely associated with the Leather Industry and its export performance, the Committee will be grateful to have from the Council its appreciation of the leather industry, of the strengths, weaknesses, opportunities and threats of the leather industry, the several measures that could be taken to minimise sickness and sustain the growth of the industry.

The Committee would particularly like the Council to suggest measures:

- (a) i. to revive and rehabilitate sick/weak units that have export potential;
ii. to minimise sickness in leather industry;
iii. to ensure the sustained growth of leather industry;
iv. to improve the share of Indian Leather products/goods in the global market.
- (b) suggestions in regard to specific research work to be undertaken to upgrade and improve the quality of Indian leather/leather products;
- (c) any other matter related to the well-being of the Indian leather industry.

It will be nice if you can kindly list out the reports of earlier Committees, Task Forces, Statistical Data and other published matters useful for the Committee.

It will be nice to have your reply before 15th March, 1993. A copy of your reply may kindly be sent to the Chairman of the Committee to the following address:

Shri M.G. Balasubramanian,
No. 25, Second Floor,
Fourth Trust Cross Street,
Mandavelipakkam,
Madras - 600 028.

The receipt of this letter may kindly be acknowledged through the acknowledgment card attached to this letter.

Thanking You,

Yours faithfully,

Encl: as above

sd. (Member -Secretary)

Appendix - VIII

M.G. BALASUBRAMANIAN,
Chairman, RBI Committee
on Leather Industry

25, Second floor,
Fourth trust Cross Street,
Mandavelipakkam,
Madras - 600 028
Ph. No. 837395
(now changed as 4937395)

RBI/CLI/CLE-MBR/1/93

20.8.1993

To:
25 Non-Official Members of
CLE (as per list enclosed)

Dear Sirs,

Sub: RBI Committee on Leather Industry.

You may have come to know about the appointment of a Committee by RBI to look into the problems of sick units in the leather industry. A copy of the RBI Notification setting up the Committee is at Appendix - I. The Committee has sent questionnaires (vide Appendix II A) to a few individual units (list at Appendix - IIB), and extracts from the letter addressed to the Trade Organisations in leather industry is at Appendix - VIII B.

I am requesting you on behalf of the Committee to offer your valuable suggestions on matters relating to the terms of reference and on the points raised in the Questionnaire and in the letter to the Trade Organisations. The Committee will greatly value your suggestions as they will be based on your intimate knowledge of leather industry and your association with CLE.

It will be nice, if I could have your response by 20th September,93. A copy of your reply to me may kindly be sent to Member-Secretary of the Committee:

Mr.B.Ramani Raj,
Joint Chief Officer,
Industrial & Rehabilitation Division,
Industrial & Export Credit Department,
Reserve Bank of India, Garment House,
Dr. Annie Besant Road, Worli,
Bombay - 400 018.

If you desire to meet the Committee or meet me for a discussion, please let me know.

Awaiting your early reply.

Thanking you,

Yours faithfully,

(M.G.BALASUBRAMANIAN)

Appendix - VIII A

**List of Non-official Members of Council for Leather Exports,
addressed by Chairman, RBI Committee on Leather Industry.**

1. Mr. M.M.Hashim,
M/s.M.A.Khizar Hussain & Sons,
2, Hunters Road, Choolai,
Madras - 600 112.

2. Mr.Radhey Lall,
M/s.Ramnath Exports Ltd.,
A-25, Hauz Khas,
New Delhi - 110 016.

3. Mr. S.M.Shahid,
M/s. Zam Zam Tanners,
90/254, Purwa Hiran, P.B.No. 383,
Kanpur - 208 001.

4. Mr.C.Abdul Wahab,
M/s. Irshad Ahmed & Co.,
19, E.K. Guru Street, Periamet,
Madras - 600 003.

5. Mr. C.K.Duraivelan,
M/s. C.Kalyanam & Co.,
16, Muthugramani Street, Periamet,
Madras - 600 003.

6. Mr. Syed Zafer Ali,
M/s. East India Goat Skin Co. Ltd.,
24-A, Bright Street,
Calcutta - 700 016.

7. Mr. P.S.Uberoi,
M/s.Bremco Corporation,
Nawabganj,
Kanpur - 208 002.

8. Mr. Ashok Mahajan,
M/s. Good Year Shoe Factory,
16/290-A, Rani Ka Khera, Belanganj,
Agra - 292 004.

9. Mr. H.R.Malik,
M/s. Maliks Traders,
62, Jolly Maker Chambers, 2, Nariman Point,
Bombay - 400 021.

10. Mr.S.P.Jain,
M/s. Stepwell Industries,
19-B, Rewari Lane, Industrial Area,
Phase I, Mayapuri,
New Delhi - 110 027.

11. Mr.C.K.Basu,
M/s. New Horizon Pvt.Ltd.,
41, Shakespear Sarani,
Calcutta - 700 017.

12. Mr.P.H.Mahtani,
M/s.Tejmools Pvt.Ltd.,
212,Nariman Point
Bombay - 400 021.

13. Mr.K.N.Bhat,
M/s. Namaste Exports Ltd.,
21/2,Vittal Nagar, Chamarajpet,
Banglore - 560 018.

14. Mr.M.Rafeeqe Ahmed,
M/s. Farida Prime Tannery,
936, Periyar EVR High Road,
Madras - 600 084.

15. Ms.Rita Singh,
M/s. Mideast (India) Ltd.,
H-1, Zamrudpur Community Centre, Kailash Colony,
New Delhi - 110 024.

16. Mr. Misbahul Haque,
M/s. Rehan Leather Industries Pvt.Ltd.,
2, Suhrawardy Avenue,
Calcutta - 700 017.

17. Mr.Imthiaz Pasha,
M/s. Chevro Leather Manufacture,
5, Muktha Garden, Spur Tank Road, Chetput,
Madras - 600 031.

- * 18. Lt.Gen.S.L.Malhotra,
M/s. Tata Exports Ltd.,
Block A, Shivasagar Estate, Dr. Annie Besant Road, Worli,
Bombay - 400 018.

- 19. Mr.Mohd. Nauman,
M/s. Soni Leathers,
297-F, A.P.C.Road,
Calcutta - 700 009.

- 20. Mr.Rohit Balaju,
M/s. Baluja International,
B-128,DDA Sheds, Okhla Inds. Estate.,
New Delhi - 100 020.

- 21. Mr. Ameenur Rahman,
M/s. Florind Shoes Ltd.,
31, Maddox Street,
Madras - 600 112.

- 22. Mr. Pradip Kumar Bothra,
M/s. Creative,
12, Dargah Road,
Calcutta - 700 017.

- 23. Mr. Ranjit Singh Bokaria,
M/s. Lexpo International,
5, Manonani Amal Street, Millers Road, Kilpauk,
Madras - 600 010.

- 24. Mr.V.K.Srivastava,
M/s. Eastern Leather Products,
C-2, Community Centre, Naraina Vihar,
New Delhi - 110 028.

- * 25. Mr.V.Balaraman,
Chairman, Footwear Design & Development Institute,
Noida, U.P.

* - Those who have replied.

EXTRACTS FROM THE LETTER ADDRESSED TO
33 TRADE ORGANISATIONS IN LEATHER

*Reserve Bank of India has constituted a Committee to study the problems of sick and weak units in leather industry and to suggest measures to overcome them. Shri M.G. Balasubramanian is the Chairman of the Committee and Shri B.Ramani Raj, Joint Chief Officer, RBI is the Member - Secretary. Members of the Committee are representatives from State Bank of India, Bank of Baroda, Indian Bank, Small Industries Development Bank of India, Leather Industry, Central Leather Research Institute, Council for Leather Exports, United Nations Development Programme, Union Ministry of Industry and Union Ministry of Commerce.

We have addressed a number of sick units (.....) to fill up a questionnaire as in the Annexure A. You may like to advise your members who are not in the list, to send the particulars regarding their units as in the Annexure I to the Member-Secretary, with a copy to Chairman, to his Madras address.

The Committee welcomes your suggestions in regard to the general issues pertaining to the leather industry in matters like measures:

- (a) i. to revive and rehabilitate sick/weak units that have export potential;
- ii. to minimise sickness in leather industry;
- iii. to ensure the sustained growth of leather industry;
- iv. to improve the share of Indian Leather products/goods in the global market.
- (b) suggestions in regard to specific research work to be undertaken to upgrade and improve the quality of Indian leather/leather products;
- (c) any other matter related to the well-being of the Indian leather industry.*