

India Extends Textile Program

By N. Vasuki Rao

BANGALORE, India — The Indian government, encouraged by the success of a seven-year program to modernize and upgrade the country's vital textile sector, has extended it for another five years.

Under the program, called the Technology Upgrade Fund Scheme, which kicked off in April 1999, the central government offers an interest subsidy of 5 percent to textile companies when they take loans to upgrade specified machinery in their factories. The government has identified several financial institutions to give loans to these textile factories. The program also includes capital subsidy for buying state-of-the-art machinery.

"The TUFs has surely been successful," said D.K. Nair, secretary general of the Confederation of Indian Textile Industry. "It is one of the most successful schemes of the government, as the benefit goes directly to the targeted group. The offtake of loans has increased in recent years."

A. Sakthivel, president of the Tirupur Exporters' Association, estimated that at least 500 factories in Tirupur, including his own, have taken TUFs loans. Tirupur is a major center for knitwear manufacturing and exports in south India.

The Indian government drafted the scheme to modernize the textile sector because it is the second largest provider of employment after agriculture. Textiles also contribute 14 percent to India's industrial production and 17 percent to export earnings.

According to data published by the Office of the Textile Commissioner, about 11,200 applications for loans totaling 369.5 billion rupees, or about \$9.2 billion at current exchange, were approved during the seven years ended March 2007. The program initially received lukewarm response, but picked up significantly once the abolition of global textile quotas in 2005 neared.

The Indian textile industry, which ranges from simple hand looms in the small business sector to large composite mills, has been characterized by technological obsolescence due to the protected quota market it enjoyed for many years. Every segment of the industry is now taking loans under TUFs. However, the spinning and composite mills have been the largest beneficiaries of the program, followed by processing, weaving, apparel, synthetic fibers and knits.

According to Crisil Ltd., a Standard and Poor's company involved in rating and research, the well-developed spinning sector has been the biggest beneficiary. Figures show that the spinning sector has taken 33 percent of the loans, while the weaker processing and weaving sectors have received just 11 and 7 percent, respectively.

Crisil said investments in weaving and processing segments were grossly inadequate due to small unit sizes, poor

capital productivity and profitability of units. Crisil believed that there was a need to not only correct the investment bias toward spinning, but also to channel larger flows into weaving and processing.

Nair explained that apparel manufacturing in India is labor-intensive, while spinning is the most capital-intensive and needs more funds. Many of the spinning mills are big companies listed on the stock exchanges. In the case of processing and weaving, more than 60 percent of the units are small businesses, and many of them may not even have bank accounts and would be unable to produce a balance sheet for taking loans.

Sakthivel said apparel factories have lower capital costs, and therefore it is understandable that total loans taken by them are much less than spinning and composite mills.

In an attempt to correct the bias, the government modified the program in December, lowering the interest subsidy to 4 percent for spinning machinery, while retaining the 5 percent subsidy for all other segments. It also extended 10 percent capital subsidy to apparel and technical textile segments. The TUFs program will enable an investment of 1.5 trillion rupees, or \$37.12 billion, in the textile industry in the next five years, an official statement said.

In the national budget for fiscal 2009, the central government allocated 10.9 billion rupees, or \$268.6 million, for TUFs. P.D. Patodia, chairman of the Confederation of Indian Textile Industry, said this was not enough and demanded it be increased.

An Untapped Source of Working Capital: Your Own Financial Supply Chain



By John Ahearn
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Working capital. It's a key to any organization. And for a long time, it was there when needed. When a business required more working capital than it had on hand, it simply went out and borrowed it — via commercial paper, bank lines, and so on. Simple.

That was then. This is now. Credit markets have changed. Liquidity concerns have raised borrowing costs. These changes are prompting more companies to reassess their fundamental capital structures, and how they finance their short-term working capital needs.

Without the same external sources of working capital as were available in the past, companies have become introspective — looking inside themselves for ways to bolster DSO and DPO numbers, where improvements can translate to a shorter cash conversion cycle.

One of the most advantageous places to search for additional forms of working capital is the supply chain, which impacts 75% of a company's operating results. Companies with best-in-class supply chain management practices have been found to experience significantly higher growth rates than the competition.

So, how can one's global supply chain be made more efficient? The first step is understanding how it works. Armed with that knowledge, an organization can

make adjustments — discovering nooks and crannies filled with hidden working capital that can be released, significantly reducing reliance on external sources for a liquidity injection.

Two sides to the supply chain

Any organization's supply chain has two sides: the physical and the financial. Over the past several years, companies have done an outstanding job focusing on the former. Making adjustments in the physical supply chain, they've achieved impressive efficiencies in such areas as just-in-time inventory, logistics and so on. The emphasis here has been on keeping inventory off the balance sheet (and on suppliers' balance sheets) for as long as possible. A good example is the auto industry, where it's not uncommon to see components manufactured locally, then consolidated into a finished vehicle.

The physical supply chain has added a lot of value for companies. But today, when those companies go back to that same trough in search of additional liquidity opportunities, they're coming to a sobering realization: The physical supply chain has become so efficient that there's not much additional value to be mined there.

As a result, companies are looking to the other side of the supply chain for hidden working capital: the financial side.

The financial supply chain: today's new frontier

The financial supply chain is all about working capital — that is, the capital deployed in a business to support its cash conversion cycle. Its three primary drivers:

- DSO — (days sales outstanding) how many days, and at what terms, you are giving customers to pay for goods you sell them
- DPO — (days payable outstanding) how many days, and at what terms, your suppliers are giving you to pay for goods you purchase from them

- DIO (days inventory outstanding) — how many days you are holding inventory on your balance sheet

The key question here: How much time is elapsing from the day goods are ordered to the day those goods are sold and paid for? The shorter that cash conversion cycle, the less working capital is required to keep the operation afloat.

It stands to reason, then, that making adjustments to DSO, DPO and DIO can reduce the cash conversion cycle and release significant amounts of capital — cash that doesn't have to be borrowed from the market or from a financial institution. In today's ultra-tight credit market, this kind of optimized financial supply chain management can represent a cash boon to a corporation.

Trade solutions that optimize the financial supply chain

To enhance visibility into the financial supply chain, Citi offers cash-seeking companies a comprehensive portfolio of innovative trade services and financial products. Powered by a state-of-the-art IT platform, Citi's trade finance solutions automate the trade receivables and payables process between suppliers and buyers.

The result is real-time management information, customized to meet each trading partner's unique needs.

As a leader in helping companies take advantage of opportunities in the global financial supply chain, Citi's abilities reflect an outstanding staff that includes highly experienced trade professionals, a robust product-management team, client-relationship managers and sales staff, who work in 113 cities in 72 countries, all supported by a cutting-edge technology platform.

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Ready-to-Wear/Textiles



Flow Gently

Karl Lagerfeld is showing a softer side at Fendi for resort. He has moved beyond last season's sculptural stance, embracing a gentler, more subdued Seventies look instead. Here, one example: a silk tunic with ruffled sleeves. For more, see pages 6 and 7.

Challenges for Barneys: Tough CEO Search Ahead As Economy Hits Growth

By David Moin

Barneys New York has double trouble—losing its chief executive while struggling to get its expansion strategy on track in a tough U.S. economy.

The retailer's chief executive officer, Howard Socol, is expected to retire soon, about a year ahead of his original timetable. Finding a seasoned successor to guide the luxury retailer isn't expected to be easy, with no obvious inside candidate and a very shallow talent pool outside.

Sources said Monday Socol, 62,

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