

**EVALUATION STUDY**  
**OF**  
**THE KARNATAKA HANDLOOM**  
**DEVELOPMENT CORPORATION**

**For**  
**Department of Public Enterprises**  
**Government of Karnataka**

**August, 2014**

*Prepared by*

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## Executive Summary

- ✦ This Evaluation Study Report of Karnataka Handloom Development Corporation (KHDC) has been prepared for Department of Public Enterprises (DPE), Government of Karnataka. KHDC is involved in promotion and development of handloom artisans in the State by giving necessary support in manufacturing and marketing of handloom fabrics through their 50 retail outlets all over India as well as through wholesale sales.
- ✦ Study has been conducted based on the approved Terms of Reference (ToR) by DPE, Government of Karnataka; KHDC and KEA.
- ✦ KHDC is handling pre-loom process house at two locations viz., Banahatti and Ranebennur. Production & procurement of handloom products mainly through their cotton / polyester projects at major clusters in the State situated mostly in northern part of Karnataka and silk products through silk projects situated mainly in southern part of the State. In addition, KHDC also handles post-production loom process at Priyadarshini Textile Process House situated at Peenya, Bangalore.
- ✦ Evaluation Study has been prepared for the reference period 2007-08 to 2011-12. The outcome of the Evaluation Study during the reference period has been summarized in a tabular form and given below:



Sl. No.	Description	2007-08	2011-12	% increase/decrease	Remarks
<b>I</b>	<b>Physical Performance</b>				
1	Working looms				
a)	Cotton (Nos.)	11,594 (2001-02)	6,569 (2011-12)	↓43%	Young generation is not showing interest due to drudgery & inadequate remuneration
b)	Silk (Nos.)	976 (2001-02)	689 (2011-12)	↓29%	
<b>2</b>	<b>Production</b>				
a)	Janatha cloth				Government sponsored Scheme being phased out
	• Lakh mtrs.	11.30	3.10	↓ 73%	
	• Value(Rs.lakhs)	234	102	↓ 56%	
b)	Non-Janatha cloth				Market related production. Increase in value due to inflation
	• Lakh mtrs.	43.00	23.00	↓ 47%	
	• Value(Rs.lakhs)	918	1,042	↑14%	
c)	Polyester cloth				Remained almost steady
	• Lakh mtrs.	53	56	-	
	• Value(Rs.lakhs)	1,660	2,600	↑57%	Due to inflation
d)	Silk cloth				Appears there is good demand for silk cloth
	• Lakh mtrs.	1.99	2.61	↑31%	
	• Value(Rs.lakhs)	454	1,028	↑126%	Due to increase in production and inflation
e)	Overall production				Due to decline in Janatha & Non-Janatha cloth production
	• Lakh mtrs.	109	85	↓ 22%	
	• Value(Rs.lakhs)	3,270	4,780	↑46%	Mainly due to inflation and increase in silk production
f)	Productivity per shift per loom				
	• Cotton/Polyester cloth (in mtrs.)	4	4	-	This productivity is low when compared to achievable productivity of about 5 mtrs. to 6 mtrs.
	• Silk (in mtrs.)	1.14	1.26	-	
					About 1.5 mtrs. to 3 mtrs. in case of silk depending on the fabric variety, design, weaving skill, etc..



Sl. No.	Description	2007-08	2011-12	% increase/decrease	Remarks
g)	Average value of production (Rs./mtr.)				
	• Cotton/Polyester	26	45	↑ 73%	Mainly due to raw-material and other costs
	• Silk	228	394	↑ 73%	
h)	Conversion charges paid to weavers (Rs. lakhs)	944	1,367	-	1/3 <sup>rd</sup> of the production cost is towards payment of wages. This is high when compared to Industry average of about 5 to 6% indicating low productivity and high cost of production in case of handlooms
<b>II Financial Performance</b>					
1	Sales Revenue (Rs.lakhs)	8,888	13,721	↑ 54%	
<b>Segment-wise contribution</b>					
	• Retail sales	1,693 (18%)	2,954 (20%)		Wholesale sales and VV Schemes are the two major contributors in the total sales. More efforts required in pushing retail sales by enhancing product range acceptable to the market
	• Wholesale sales	1,410 (15%)	6,973 (47%)		
	• SSDS	359 (4%)	253 (2%)		
	• VV Scheme	5,968 (63%)	4,522 (31%)		
2	Total revenue (Rs. lakhs)	10,242	15,090	↑ 47%	This includes other income of about Rs. 1,360 lakhs which mainly covers interest income, rebate reimbursement, reimbursement under SSDS, increase in stock, etc..
3	Expenditure (Rs. lakhs)	9,604	14,470	↑ 51%	
<b>Distribution of Expenditure</b>					
	• Material consumed	1,924 (20%)	4,291 (30%)		<ul style="list-style-type: none"> <li>• Purchase of stock (under Madilu Scheme), materials consumed in production are the two major contributor to the expenditure</li> <li>• Employee benefit expenses is hovering around 21% of total sales which is very high compared to mill sector which is about 5% to 8% of total sales.</li> </ul>
	• Purchase of stock	4,623 (48%)	5,329 (37%)		



Sl. No.	Description	2007-08	2011-12	Remarks
	<ul style="list-style-type: none"> <li>• Employees benefit</li> <li>• Administrative overheads</li> </ul>	1,965 (20%)	3,084 (21%)	<ul style="list-style-type: none"> <li>• Admn. overheads includes expenditure incurred in Peenya Textile Process House (PTPH). The processing charge in PTPH is ranging between 36% and 61% of admn. &amp; other overhead costs. This needs to be reduced by increasing production and reducing the expenditure</li> <li>• The economics of production of PTPH and outsourcing reveals that the outsourcing will cost 50% of in-house production costs</li> </ul> <p>The overall expenditure is more than the sales income for all the five years and total revenue income (for 3 years out of 5 years Study period)</p>
4	<b>Finance Cost (Rs. lakhs)</b>	466	836	
	<b>Distribution of Finance Cost</b>			
	• Govt. of Karnataka Loans	62.49 (13%)	105.97 (13%)	Finance cost is in the range of 5% to 7% of the total revenue and 5% to 9% of the total sales income. The finance cost is very high when compared to the available margin of 1% to 2% of sales income in this sector
	• Cash credit accounts	336.77 (72%)	243.04 (29%)	
	• Addl. loans (margin money for working capital)	45.19 (10%)	462.28 (55%)	
	• Delayed payment to suppliers	21.23 (5%)	24.29 (3%)	
5	Profit / Loss after tax (Rs. lakhs)	192	(259)	Corporation has made loss during 3 out of 5 years study period (Rs. 1,123 lakhs during 2009-10; Rs. 999 lakhs during 2010-11 and Rs. 259 lakhs during 2011-12) and marginal profit of Rs. 192 lakhs during 2007-08 and Rs. 38 lakhs during 2008-09



Sl. No.	Description	2007-08	2011-12	% increase/decrease	Remarks
6	Total Networth (Rs. lakhs)	3,299	2,077	↓ 37%	This shows that the Corporation using own funds i.e., share capital and reserves & surplus for their operation which is not a good sign
7	Cumulative loss (Rs. lakhs)	5,103	7,470	↑ 46%	<ul style="list-style-type: none"><li>• The Corporation is unable to reduce the cumulative loss despite increase in sales as well as total revenue</li><li>• The Corporation is making excess expenditure over income and needs to curtail the expenditure and increase the productivity of operations to overcome the loss</li></ul>
8	<b>Ratio Analysis</b>				
a)	Current Ratio	2.77	1.43	↓	Commonly acceptable ratio is 2. Liquidity of the Corporation is reducing indicating inability to meet short-term debt obligations
b)	Quick Ratio	2.15	0.98	↓	Commonly acceptable ratio is 1, indicating Company's ability to meet its short-term obligations is reducing
c)	Cash Ratio	0.86	0.47	↓	Cash ratio is showing reducing trend due to increase in current liabilities. Better cash ratio management is achieved by either increasing the cash reserve or reducing the current liabilities



Sl. No.	Description	2007-08	2011-12	% increase/decrease	Remarks
9	Inventory cost as percentage of sales	37%	41%		<ul style="list-style-type: none"><li>• Inventory covers raw-materials, stores &amp; spares, dyes &amp; chemicals, handlooms &amp; accessories, packing material, stock in process, cloth &amp; yarn with weavers.</li><li>• The very nature of low productivity handlooms necessitates requirement for carrying high inventories</li><li>• There is also need for increased regular sales for reducing the inventory carrying costs</li><li>• At present maximum retail sales of 95% is taking place during rebate period of 135 days and a meager 5% sales is taking place during non-rebate period of 195 days</li></ul>

✚ The Corporation is operating & implementing three major Schemes of Government of Karnataka viz., Vidya Vikasa Scheme, Subsidized Saree Dhoti Scheme and Madilu Scheme. Major contribution to the total sales (80%) is mainly coming from Vidya Vikasa Scheme, Madilu Scheme and other wholesale sales made to Government / Public Sector Organizations.

✚ Vidya Vikasa Scheme is contributing to 31% of the total sales (2011-12).

✚ The Corporation is unable to plan and organize supply of uniforms under Vidya Vikasa Scheme due to delay and uncertainty in receiving supply orders from the Education Department. The Corporation is also facing difficulties in working capital management due to this Scheme, as fund

flow from the Education Department is irregular. To manage the production activity under this Scheme, the Corporation has to borrow loan from the Banks at high interest rate, which is one of the major factors contributing to the loss of the Corporation.

- ✦ The Corporation is meeting clothing requirement for different purposes by in-house production as well as outsourcing. Under the existing product range of the Corporation, cotton printed sarees, bed spreads / bed sheets / bed linen, towels & carpets, Dhothi / lungi are the fast moving in cotton / polyester varieties and printed silk sarees, traditional sarees, home furnishing are the major fast moving silk varieties.
- ✦ The value of cloth outsourced is 42% of the total production value during 2011-12 to meet the customers demand for different varieties of cloth. The Corporation is utilizing maximum working looms for in-house production under Vidya Vikasa Scheme.
- ✦ The Corporation has 50 showrooms under its fold for doing retail sales. Out of 50 showrooms, 21 are 'A' Category showrooms located in Bangalore and other major cities outside the State; 10 are 'B' Category showrooms located in Tier-II cities / district headquarters; 16 are 'C' Category showrooms located in district headquarters and 3 'D' Category showrooms located in towns / taluk headquarters.
- ✦ As on 1.1.2014, the Corporation had 724 persons on its roll. Out of 724, 122 persons are working on deputation basis in various Government Organizations mainly in Karnataka State Breweries Corporation Ltd..
- ✦ Ramanath Committee constituted for studying human resource requirement of the Corporation has suggested abolition of certain posts and creation of certain new posts. The Corporation needs to consider the recommendation of the Committee suitably.





- ✦ The Corporation is implementing several development and welfare schemes of the State & Central Governments for the benefit of weavers. The major Schemes & Programmes implemented by the Corporation includes – Construction of Living-cum-Worksheds, Mahatma Gandhi Bunkar Bhima Yojana, Health Package Scheme, Thrift Fund and Scholarship to children of weavers.
- ✦ The Corporation has identified excess area availability in three major locations in urban localities viz., Regional Office, Ulsoor, Surya Nagar, Anekal and Peenya Textile Process House. The Corporation may utilize the excess area available suitably.
- ✦ The KHDC cannot be compared with Co-optex of Tamilnadu since KHDC is a Corporate Body whereas Co-optex is a Co-operative Apex Body. The Co-optex is involved in procurement and sale of both handloom & powerloom cloth, whereas KHDC deals mainly in production and procurement of handloom products.
- ✦ The sales turnover is also very large at Rs. 1,423 crores (2012-13) comprising retail sales at Rs. 243 crores, export sales Rs. 2 crores, yarn sales Rs. 300 crores. Government / Contract sales Rs. 878 crores. Whereas, KHDC is making sales turnover of Rs. 147 crores (2011-12) out of which, retail sales Rs. 30 crores and wholesale sales Rs. 117 crores.
- ✦ Since Co-optex is a Co-operative Apex Body, they are entitled for subsidized rate of interest at 8% per annum under NABARD Refinance Scheme. Whereas, KHDC interest rate works out to 11% per annum even after 3% subsidy rebate offered by State Government on loan raised from consortium of Commercial Banks.
- ✦ Co-optex is a Nodal Agency of the Government of Tamilnadu for implementing all the Schemes & Programmes related to textiles which includes free supply of uniforms, sarees, Dhothis, etc., announced by Government of Tamilnadu from time to time. No special status for KHDC



for implementing Schemes & Programmes related to Textiles in the State of Karnataka. The budgetary allocation is made directly to various Departments for procuring required textile materials / goods through transparent tendering procedure.

### **Recommendations**

Considering the evaluation outcome, the recommendations are categorized under two major heads viz., **short / medium-term recommendations** which needs to be implemented over a period ranging between 1 and 2 years. There are few recommendations which require Policy intervention from State / Central Government. These recommendations are given separately under the heading **recommendations requiring change in Policy** which may take more time. Since the Corporation has already entered danger zone due to year-on-year loss as well as huge accumulated loss, the recommendation needs to be considered seriously and acted upon within a reasonable time zone to avoid further deterioration of the Corporation's health.

#### **Short / Medium-term Recommendations**

- ✚ Make efforts to reduce the overall expenditure in order to enhance the profitability. The inventory carrying costs needs to be reduced by increased regular sales. The Corporation at present is making maximum retail sales of 95% during rebate period of 135 days in a year and therefore need for balancing the sales both during rebate and non-rebate period to reduce the inventory carrying costs.
- ✚ Peenya Textile Process House (PTPH) is one of the major contributors to the loss of the Corporation. Corporation has to take measures to reduce the overhead costs either by increasing the production and productivity of process house or by outsourcing the processing of entire production which will bring down the overhead costs. In case cost reduction is difficult to achieve, the Corporation may decide to close the PTPH and utilize the assets for other productive use.



- ✚ In order to encourage young weavers / candidates from giving up their weaving profession in favour of other vocations, 2,500 young weavers may be trained over a period of five years time at the rate of 500 weavers per year. Young candidates having aptitude & interest in weaving profession should be selected without applying any reservation criteria. Training should be given in basic and advanced design weaving of fabric having market demand.
- ✚ Develop niche products catering to middle income group & affluent society in urban markets, product diversification through introduction of improved and new designs periodically, improve marketing skills of the sales staff, upgrade showrooms, product promotion, etc..
- ✚ KHDC is relying more on Government Schemes such as Vidya Vikasa Scheme, Madilu, etc. for their survival. Though Government support is required for sustenance of the Corporation, it also has to increase the contribution of retail sales in the total sales by introducing new and diversified products acceptable to the market in order to enhance the profitability.
- ✚ Close down six retail showrooms in Kolkata – Garihatta, Kolkata – Manikthala, Chennai, Navi Mumbai, Bagalkote and Bijapur as they are considered to be non-performing.
- ✚ Implement the recommendation of Ramanath Committee on human resources restructuring suitably.
- ✚ Under Vidya Vikasa Scheme, Education Department may enter into Memorandum of Understanding with the Corporation for a minimum period of three years. The Corporation has to be given minimum 50% advance along with the order for proper planning & execution.



- ✚ Corporation has to set-up Market Research Cell to conduct Market Research / Survey on a regular basis to ascertain products which are in good demand and manufacture either in-house or outsource to enhance the sales turnover.
- ✚ Corporation may enter into agreement with NIFT / NID / SHRISTI for getting new and better designs acceptable by the market. Adequate financial support from Government needs to be extended to KHDC for entering into such agreement for creation of new and better designs.

#### **Recommendations requiring change in Policy**

- ✚ Unlock the vacant properties available at Regional Office, Ulsoor; Suryanagar, Anekal; PTPH, Bangalore; suitably for commercial use which will give additional income to the Corporation. These properties may be developed on Public Public partnership basis. The revenue model for development of such property on joint development basis needs to be worked out separately before taking appropriate decision.
- ✚ The Corporation is incurring high interest costs on account of loans raised from different sources. The margin money of Rs. 4,000 lakhs has been provided by Government of Karnataka and Government of India under financial restructuring to build a working capital corpus fund. The interest earned under this corpus fund is again re-invested and deposited in a separate bank account. Allow utilization of interest earned on margin money towards working capital needs, as the Corporation is incurring unnecessary interest burden by paying interest to the bankers on the overdraft drawn on the corpus fund and by this, the Corporation is no way benefitted. This interest rate burden is adding to the expenditure of already over-stressed Corporation.



- ✚ The Corporation is paying nearly Rs. 106 lakhs every year towards interest to State Government on account of VRS. Instead of burdening the Corporation on this account, the State Government may convert entire loan amount of Rs. 1,378 lakhs along with interest accrued into equity, which will help the Corporation in reducing the expenditure and also accumulated loss.
- ✚ The State Government may provide level playing field to the Corporation by offering at least 6% interest subsidy on the loan raised from the consortium bank. At present, Corporation is getting interest subsidy @ 3% from the State Government on the Cash Credit loan raised from the consortium bank. This is necessary since the Corporation is serving the socio-economically backward sections of the Society residing in rural areas, who are engaged in weaving activity of low productivity in nature, compared to powerloom and mill sector.
- ✚ The tenure of the Head of the Corporation has to be for a fixed time period of 3 to 5 years which will give stability to the Corporation and help in taking timely & firm practical decisions for smooth implementation of the recommendations made.

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## Chapter 13

### CONCLUSIONS & RECOMMENDATIONS

#### 13.1 Conclusions

This Evaluation Study Report of KHDC has been prepared for Department of Public Enterprises, Government of Karnataka. Based on the Evaluation Study of KHDC, following conclusions are drawn:

- \* KHDC is involved in promotion and development of handloom artisans in the State by giving necessary support in manufacturing and marketing of handloom fabrics.
- \* The working cotton looms was 11,594 during 2001-02 and has reduced to 6,569 during 2011-12 showing a decline of 43%. During the same reference period, the silk looms have declined from 976 to 689 showing a decline of 29%. The overall decline of working looms under KHDC works out to 42% for the reference period. This indicates that many weavers have deserted KHDC and taken up alternative employment. This show that young generation are not interested in taking up weaving profession, as it involves drudgery and provides inadequate remuneration.
- \* Overall production of cloth has also shown declining trend from 109 lakh mtrs. to 85 lakh mtrs. showing a decline of 22% in overall cloth production.
- \* Value of cloth production has increased from Rs. 3,270 lakhs to Rs. 4,780 lakhs – an increase of 46% mainly due to inflation.



- \* Cotton and Polyester cloth production has declined from about 107 lakh mtrs. to about 83 lakh mtrs. (decline of 22%). Whereas, silk production has increased from about 2 lakh mtrs. to about 2.6 lakh mtrs. (increase of 31%).
- \* It appears that, there is good demand for the silk cloth produced by the Corporation as it is revealed from the increase in production of silk cloth. In value terms, it has increased from Rs. 454 lakhs to Rs. 1,028 lakhs (126%) during the study period, mainly due to increase in production as well as inflation.
- \* The average value per metre of cloth production increased from Rs. 26 per metre to Rs. 45 per mtr. in case of cotton and polyester cloth and from Rs. 228 per mtr. to Rs. 394 per mtr. in case of silk cloth.
- \* The average production per loom per day in case of cotton is about 4 mtrs. and in case of silk it is 1.26 mtrs. This productivity is low when compared to achievable productivity of about 5 mtrs. to 6 mtrs. in case of cotton and about 1.5 mtrs. to 3 mtrs. in case of silk depending on the fabric variety, design, weaving skill, etc..
- \* Sales revenue has increased from Rs. 8,888 lakhs to Rs. 13,721 lakhs - an increase of 54%.
- \* Total revenue which constitutes sales and other income has increased from Rs. 10,242 lakhs to Rs. 15,090 lakhs (an increase of 47%). The contribution of other income to the total revenue is about 9% during 2011-12.
- \* The expenditure has increased corresponding with the total revenue. Total expenditure (before interest & depreciation) has increased from Rs. 9,604 lakhs to Rs. 14,470 lakhs. However, highest expenditure of Rs. 15,317 lakhs during 2010-11 was noticed. The highest expenditure during 2010-11 was mainly on account of increase in purchase of stock in trade due to higher purchase made under Madilu Scheme.



- \* The employee benefit expenses, administrative & other overheads put together constitutes around 35% of total sales. The employee benefit expenses itself is hovering around 21% which is very high compared to cloth production in mill sector, which is about 5% to 8% of the total sales.
- \* Administrative & other overheads include expenditure incurred in Peenya Textile Process House (PTPH). The processing charges in PTPH are ranging from 36% to 61% of administrative & other overhead costs. There is need to reduce processing cost by increasing the production and reducing the expenditure.
- \* The overall expenditure is more than the sales income for all the five years and total revenue income (for 3 years out of 5 years Study period).
- \* Finance costs includes mainly interest payouts made towards various loans availed from different sources. The loan availed includes State Government loan of Rs. 1,378 lakhs towards VRS offered to 270 excess employees of the Corporation. Cash Credit loan limit of Rs. 2,700 lakhs from consortium banks, loan raised against fixed deposits (margin money corpus of Rs. 6,329 lakhs) and interest on delayed payment to suppliers. The expenditure towards finance costs is in the range of 5% to 7% of the total revenue and 5% to 9% of the total sales income. This expenditure is very high when compared to the available margin of 1% to 2% of sales income in this sector.
- \* Corporation has made loss during three out of five-year study period (Rs. 1,123 lakhs during 2009-10; Rs. 999 lakhs during 2010-11; Rs. 259 lakhs during 2011-12) and marginal profit of Rs. 192 lakhs during 2007-08 and Rs. 38 lakhs during 2008-09. The corporation needs to workout a strategy for increase in sales and reducing expenditure in order to show a reasonable profit year-on-year basis.





- \* Total networth is showing declining trend from Rs. 3,299 lakhs during 2007-08 to Rs. 2,077 lakhs during 2011-12 – a decline of 37%. This shows that the Corporation using own funds i.e., share capital and reserves & surplus for their operation, which is not a good sign.
- \* Cumulative loss of the Corporation is increasing year-on-year basis. The cumulative loss was Rs. 5,103 lakhs during 2007-08 and increased to Rs. 7,470 lakhs during 2011-12 showing 46% increase in cumulative loss. The Corporation is unable to reduce the cumulative loss despite increase in sales as well as total revenue. That is to say, the Corporation is making excess expenditure over income and needs to curtail the expenditure and increase the productivity of operations to overcome the loss.
- \* Inventory cost as percentage of sales was 37% during 2007-08 and increased to 41% during 2011-12. The high inventory indicates that the Corporation is carrying more stock of raw-materials, goods in process and finished goods. The very nature of low productivity in handlooms necessitates requirement for carrying high inventories. But there is also need for increased regular sales for reducing the inventory carrying costs. At present, maximum retail sales of 95% is happening during rebate period of 135 days and only a small 5% sale is taking place during non-rebate period of 195 days.
- \* Peenya Textile Process House is one of the major contributors for the Corporation's loss, as revealed from the expenditure incurred by this Centre which is 36% to 61% of the administrative & other overhead costs.
- \* Economics of production of PTPH and outsourcing reveals that the outsourcing will cost 50% of in-house processing costs.



- \* The Corporation is operating & implementing three major Schemes of Government of Karnataka viz., Vidya Vikasa Scheme, Subsidized Saree Dhothi Scheme and Madilu Scheme. The major contribution to the total sales (80%) is mainly coming from Vidya Vikasa Scheme, Madilu Scheme and other wholesale sales made to Government / Public Sector Organizations.
- \* Vidya Vikasa Scheme is contributing to 31% of the total sales (2011-12).
- \* The Corporation is unable to plan and organize supply of uniforms under Vidya Vikasa Scheme due to delay and uncertainty in receiving supply orders from the Education Department. The Corporation is also facing difficulties in working capital management due to this Scheme, as fund flow from the Education Department is irregular. To manage the production activity under this Scheme, the Corporation has to borrow loan from the Banks at high interest rate, which is one of the major factors contributing to the loss of the Corporation.
- \* The Corporation is meeting clothing requirement for different purposes by in-house production as well as outsourcing. Under the existing product range of the Corporation, cotton printed sarees, bed spreads / bed sheets / bed linen, towels & carpets, Dhothi / lungi are the fast moving in cotton / polyester varieties and printed silk sarees, traditional sarees, home furnishing are the major fast moving silk varieties.
- \* The value of cloth outsourced is 42% of the total production value during 2011-12 to meet the customers demand for different varieties of cloth. The Corporation is utilizing maximum working looms for in-house production under Vidya Vikasa Scheme.



- \* The Corporation has 50 showrooms under its fold for doing retail sales. Out of 50 showrooms, 21 are 'A' Category showrooms located in Bangalore and other major cities outside the State; 10 are 'B' Category showrooms located in Tier-II cities / district headquarters; 16 are 'C' Category showrooms located in district headquarters and 3 'D' Category showrooms located in towns / taluk headquarters.
- \* 'A' Category showrooms has generated average retail sales of about Rs. 70 lakhs per year per showroom; 'B' Category showrooms about Rs. 47 lakhs per year per showroom; 'C' Category showrooms about Rs. 25 lakhs per year per showroom and 'D' Category showrooms about Rs. 15 lakhs per year per showroom.
- \* As on 1.1.2014, the Corporation had 724 persons on its roll. Out of 724, 122 persons are working on deputation basis in various Government Organizations mainly in Karnataka State Breweries Corporation Ltd..
- \* Ramanath Committee constituted for studying human resource requirement of the Corporation has suggested abolition of certain posts and creation of certain new posts. The Corporation needs to consider the recommendation of the Committee suitably.
- \* The Corporation is implementing several development and welfare schemes of the State & Central Governments for the benefit of weavers. The major Schemes & Programmes implemented by the Corporation includes – Construction of Living-cum-Worksheds, Mahatma Gandhi Bunkar Bhima Yojana, Health Package Scheme, Thrift Fund and Scholarship to children of weavers.
- \* The Corporation has identified excess area availability in three major locations in urban localities viz., Regional Office, Ulsoor, Surya Nagar, Anekal and Peenya Textile Process House. The Corporation may utilize the excess area available suitably.



- \* The KHDC cannot be compared with Co-optex of Tamilnadu since KHDC is a Corporate Body whereas Co-optex is a Co-operative Apex Body. The Co-optex is involved in procurement and sale of both handloom & powerloom cloth, whereas KHDC deals mainly in production and procurement of handloom products.
- \* The sales turnover is also very large at Rs. 1,423 crores (2012-13) comprising retail sales at Rs. 243 crores, export sales Rs. 2 crores, yarn sales Rs. 300 crores. Government / Contract sales Rs. 878 crores. Whereas, KHDC is making sales turnover of Rs. 147 crores (2011-12) out of which, retail sales Rs. 30 crores and wholesale sales Rs. 117 crores.
- \* Since Co-optex is a Co-operative Apex Body, they are entitled for subsidized rate of interest at 8% per annum under NABARD Refinance Scheme. Whereas, KHDC interest rate works out to 11% per annum even after 3% subsidy rebate offered by State Government on loan raised from consortium of Commercial Banks.
- \* Co-optex is a Nodal Agency of the Government of Tamilnadu for implementing all the Schemes & Programmes related to textiles which includes free supply of uniforms, sarees, Dhothis, etc., announced by Government of Tamilnadu from time to time. No special status for KHDC for implementing Schemes & Programmes related to Textiles in the State of Karnataka. The budgetary allocation is made directly to various Departments for procuring required textile materials / goods through transparent tendering procedure.



### 13.2 Recommendations

Considering the evaluation outcome, the recommendations are categorized under two major heads viz., **short / medium-term recommendations** which need to be implemented over a period ranging between 1 and 2 years. There are few recommendations which require Policy intervention from State / Central Government. These recommendations are given separately under the heading **recommendations requiring change in Policy** which may take more time. Since the Corporation has already entered danger zone due to year-on-year loss as well as huge accumulated loss, the recommendation needs to be considered seriously and acted upon within a reasonable time zone to avoid further deterioration of the Corporation's health.

#### 13.2.1 Short / Medium-term Recommendations

- Make efforts to reduce the overall expenditure in order to enhance the profitability. The inventory carrying costs needs to be reduced by increased regular sales. The Corporation at present is making maximum retail sales of 95% during rebate period of 135 days in a year and therefore need for balancing the sales both during rebate and non-rebate period to reduce the inventory carrying costs.
- Peenya Textile Process House (PTPH) is one of the major contributors to the loss of the Corporation. Corporation has to take measures to reduce the overhead costs either by increasing the production and productivity of process house or by outsourcing the processing of entire production which will bring down the overhead costs. In case cost reduction is difficult to achieve, the Corporation may decide to close the PTPH and utilize the assets for other productive use.



- In order to encourage young weavers / candidates from giving up their weaving profession in favour of other vocations, 2,500 young weavers may be trained over a period of five years time at the rate of 500 weavers per year. Young candidates having aptitude and interest in weaving profession should be selected without applying any reservation criteria. Training should be given in basic and advanced design weaving of fabric having market demand.
- Develop niche products catering to middle income group & affluent society in urban markets, product diversification through introduction of improved and new designs periodically, improve marketing skills of the sales staff, upgrade showrooms, product promotion, etc..
- KHDC is relying more on Government Schemes such as Vidya Vikasa Scheme, Madilu, etc. for their survival. Though Government support is required for sustenance of the Corporation, it also has to increase the contribution of retail sales in the total sales by introducing new and diversified products acceptable to the market in order to enhance the profitability.
- Close down six retail showrooms in Kolkata – Garihatta, Kolkata – Manikthala, Chennai, Navi Mumbai, Bagalkote and Bijapur as they are considered to be non-performing.
- Implement the recommendation of Ramanath Committee on human resources restructuring suitably.
- Under Vidya Vikasa Scheme, Education Department may enter into Memorandum of Understanding with the Corporation for a minimum period of three years. The Corporation has to be given minimum 50% advance along with the order for proper planning & execution.



- Corporation has to set-up Market Research Cell to conduct Market Research / Survey on a regular basis to ascertain products which are in good demand and manufacture either in-house or outsource to enhance the sales turnover.
- Corporation may enter into agreement with NIFT / NID / SHRISTI for getting new and better designs acceptable by the market. Adequate financial support from Government needs to be extended to KHDC for entering into such agreement for creation of new and better designs.

### 13.2.2 Recommendations requiring change in Policy

- Unlock the vacant properties available at Regional Office, Ulsoor; Suryanagar, Anekal; PTPH, Bangalore; suitably for commercial use which will give additional income to the Corporation. These properties may be developed on Public Public Partnership. The revenue model for development of such property on joint development basis needs to be worked out separately before taking appropriate decision.
- The Corporation is incurring high interest costs on account of loans raised from different sources. The margin money of Rs. 4,000 lakhs has been provided by Government of Karnataka and Government of India under financial restructuring to build a working capital corpus fund. The interest earned under this corpus fund is again re-invested and deposited in a separate bank account. Allow utilization of interest earned on margin money towards working capital needs, as the Corporation is incurring unnecessary interest burden by paying interest to the bankers on the overdraft drawn on the corpus fund since the Corporation is no way benefitted. This interest rate burden is adding to the expenditure of already over-stressed Corporation.



- The Corporation is paying nearly Rs. 106 lakhs every year towards interest to State Government on account of VRS. Instead of burdening the Corporation on this account, the State Government may convert entire loan amount of Rs. 1,378 lakhs along with interest accrued into equity, which will help the Corporation in reducing the expenditure and also accumulated loss.
- The State Government may provide level playing field to the Corporation by offering at least 6% interest subsidy on the loan raised from the consortium bank. At present, Corporation is getting interest subsidy @ 3% from the State Government on the Cash Credit loan raised from the consortium bank. This is necessary since the Corporation is serving the socio-economically backward sections of the Society residing in rural areas, who are engaged in weaving activity of low productivity in nature, compared to powerloom and mill sector.
- The tenure of the Head of the Corporation has to be for a fixed time period of 3 to 5 years which will give stability to the Corporation and help in taking timely & firm practical decisions for smooth implementation of the recommendations made.

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