EVALUATION STUDY

OF

THE KARNATAKA HANDLOOM DEVELOPMENT CORPORATION

For

Department of Public Enterprises

Government of Karnataka

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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.

- Study has been conducted based on the approved Terms of Reference (ToR) by DPE, Government of Karnataka; KHDC and KEA.

- KHDC is involved mainly in production & procurement of handloom products from their registered members and marketing of the same through their 50 retail outlets all over India as well as through wholesale sales.

- 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
I	**Physical Performance**				
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%	
2	**Production**				
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				
	• Lakh mtrs.	53	56	-	Remained almost steady
	• 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	-	1/3rd 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
II	**Financial Performance**				
1	Sales Revenue (Rs.lakhs)	8,888	13,721	⇧ 54%	
	Segment-wise contribution				
	• 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%	
	Distribution of Expenditure				
	• Material consumed	1,924 (20%)	4,291 (30%)		• Purchase of stock (under Madilu Scheme), materials consumed in production are the two major contributor to the expenditure • 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.
	• Purchase of stock	4,623 (48%)	5,329 (37%)		

Sl. No.	Description	2007-08	2011-12	Remarks
	• Employees benefit	1,965 (20%)	3,084 (21%)	
	• Administrative overheads	1,091 (11%)	1,766 (12%)	• Admn. overheads includes expenditure incurred in Peenya Textile Process House (PTPH). The processing charge in PTPH is ranging between 36% and 61% of admn. & other overhead costs. This needs to be reduced by increasing production and reducing the expenditure • The economics of production of PTPH and outsourcing reveals that the outsourcing will cost 50% of in-house production costs 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)
4	**Finance Cost (Rs. lakhs)**	466	836	⇧ 79%
	Distribution of Finance Cost			
	• 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%	• The Corporation is unable to reduce the cumulative loss despite increase in sales as well as total revenue • The Corporation is making excess expenditure over income and needs to curtail the expenditure and increase the productivity of operations to overcome the loss
8	**Ratio Analysis**				
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%		• Inventory covers raw-materials, stores & spares, dyes & chemicals, handlooms & accessories, packing material, stock in process, cloth & yarn with weavers. • The very nature of low productivity handlooms necessitates requirement for carrying high inventories • There is also need for increased regular sales for reducing the inventory carrying costs • 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

- The Corporation is operating & implementing three major Schemes of Government of Karnataka viz., Vidya Vikasa Scheme, Subsidized Saree Dhothi 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 1

INTRODUCTION

1.1 The Department of Public Enterprises (DPE), Government of Karnataka, envisaged to take up Study of Public Sector Enterprises (PSEs) of Government of Karnataka. The Study is aimed at evaluating performance on both physical and financial aspects of PSEs in order to strengthen the Enterprise to enable to perform better.

1.2 The Department decided to get study of Karnataka Handloom Development Corporation Limited (KHDC) along with other select PSEs.

1.3 DPE has selected Technical Consultancy Services Organization of Karnataka (TECSOK) to study activities of KHDC and prepare a report thereon.

1.4 Officers of TECSOK visited KHDC and held several rounds of discussions with Managing Director and other officers of KHDC. The Corporation has made available Annual Reports, Manpower details, Performance Reports, and other information required for the Study.

1.5 The Report is prepared based on the discussions and information & data collected from the Company, Co-optex, Chennai and other information from secondary sources.

1.6 TECSOK acknowledges with thanks Department of Public Enterprises, Government of Karnataka, for entrusting this Study.

1.7 TECSOK also places on record the cooperation extended by the Managing Director & other officers of KHDC during the Study.

1.8 The critical analysis of the Company's operation is based on the factual details provided by the Organization and the feedback from the stakeholders.

Chapter 2

TERMS OF REFERENCE OF THE STUDY & METHODOLOGY

2.1 Term of Reference

The Department of Public Enterprises had indicated Terms of Reference of the Study in the Memorandum of Understanding. The broad outlines of Terms of Reference of the Study are as follows:

a) Review of physical and financial performance of KHDC during last five years (2007-08 to 2011-12)

b) Examining the working capital requirement of KHDC and suggesting ways & means for optimal utilization of working capital.

c) Review of Vidya Vikasa Scheme and Subsidised Saree Dhoti Scheme

d) Review of existing product range and suggesting appropriate changes / modifications

e) Examining the existing manpower strength of KHDC and suggest optimal utilization of manpower

f) Review of Weavers Special Package.

g) Utilization of Fixed Assets to the best advantage by KHDC.

h) Comparison of KHDC with policy and schemes operated by Co-optex in Tamil Nadu.

i) Offering suitable recommendations for overall improvement and development of KHDC.

2.2 Methodology

The Study Report was prepared based on the following methodology:

(i) Through structured questionnaire to collect primary data on operations and performance for five years from 2007-08 to 2011-12.

(ii) Discussions with top level executives to know the operations and performance of the various divisions of KHDC and difficulties / problems encountered in smooth running.

(iii) Collection of secondary information from annual reports of KHDC for the period commencing from 2007-08 to 2011-12.

(iv) Information scouting in Internet and utilizing the knowledge & experience of Officers in Handlooms & Textiles.

(v) Information collected were scrutinized, compiled and analyzed and the Report was prepared based on the outcome of the analysis.

(vi) Visiting Co-optex, Chennai, for understanding the activities, programmes & Schemes, progress & performance, etc., vis-à-vis KHDC.

A questionnaire was structured to elicit primary data & information from KHDC. The structured questionnaire is enclosed as Appendix 1.

Chapter 3

ABOUT KHDC

3.1 Background

The Karnataka Handloom Development Corporation was established in 1975 with an objective of providing support to weavers. KHDC had 10,536 working handlooms as on 2011-12 out of 50,762 handlooms covered by the Corporation.

From raw-material procurement to marketing, KHDC helps traditional weavers to pursue their vocation. It has in-house pre and post-loom processing facilities which helps to maintain highest quality standards for creation of an exquisite range of silk, cotton, linen and blended fabrics. The handloom products are marketed under the brand name "Priyadarshini" through its network of over 50 outlets countrywide.

3.2 Production – Pre-loom

Yarn is the most important input in the handloom production. KHDC has been arranging all type of standard quality yarn to the weavers to meet their requirement. KHDC has pre-loom process house at two locations viz., Banahatti and Ranebennur. In the pre-loom process house, sizing of yarn is done and ready warp beams are supplied to the weavers. In addition, it has established raw-material bank at Banahatti, which will ensure timely and adequate supply of raw-material to the weavers.

3.3 Production and Procurement of Handloom Products

3.3.1 Cotton Projects

KHDC supplies yarn to the weavers and procures woven cloth. It has Production and Procurement Centres at major cluster of handloom weavers in the State. Cotton handloom weavers are concentrated mainly in Northern Karnataka who are also involved in production of polyester and blended fabrics. About 9,300 cotton handlooms are working for KHDC.

KHDC has nine Intensive Handloom Development Projects working at Banahatti, Rabkavi, Ramadurga, Ilkal, Ranebennur, Gulbarga, Basavanalyan, Bhagyanagar, EOP Badag-Betageri. In addition, it has 132 sub-centres including collection centres.

3.3.2 Silk Projects

Silk handloom weavers are concentrated in southern part of the State. About 1200 silk handlooms are working for KHDC. It has seven Silk Raw-material-cum-Procurement Depots working at Anekal, Kallur, Tiptur, Kollegal, Molkalmur, Chinthamani and Y.N. Hosakote.

3.4 Post Production Loom Process

Different varieties of fabrics produced by weavers of KHDC throughout Karnataka are collected at warehouse at Peenya. The fabrics are processed at "Priyadarshini Textile Process House" situated at Peenya II Stage about 15 km. from Bangalore. The Process House is established in the year 1980 having post-loom processing capacity of 6 lakh kgs. of different varieties of cloth per annum.

The Process House is having a fully automatic flatbed screen printing machine, silk sarees table printing and Computer Aided Designing to produce attractive designs on Sarees, Dress Materials and Furnishings. Also the process house is having a modernized silk yarn dyeing plant having production capacity of 1500 kgs of silk yarn per.

3.5 Showrooms

KHDC renders important services in the field of marketing of handloom products. It has established 50 retail outlets all over India where all the products of KHDC are displayed to promote & popularize handloom products.

Chapter 4

PERFORMANCE OF THE CORPORATION

In this Chapter, performance of the Corporation with respect to Physical Performance, Financial Performance, Working Capital Management of KHDC for five years period from 2007-08 to 2011-12 have been studied and analyzed. In addition, performance of showrooms has also been studied and analyzed.

4.1 Physical Performance

4.1.1 Looms Coverage

The number of working looms of KHDC was studied from 2001-02 to 2011-12 for both cotton and silk looms. 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 has 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 shows that young generation are not interested in taking up weaving profession, as it involves drudgery and provides inadequate remuneration. Details of coverage are shown in Table 4.1.

Table 4.1 : Looms Coverage

Year	Working Looms (in Nos.)		
	Cotton	Silk	Total
2001-02	11,594	976	12,570
2002-03	10,930	871	11,801
2003-04	5,984	492	6,476
2004-05	9,838	647	10,485

Year	Working Looms (in Nos.)		
	Cotton	Silk	Total
2005-06	9,672	713	10,385
2006-07	9,495	659	10,154
2007-08	8,898	698	9,596
2008-09	7,817	833	8,650
2009-10	8,123	882	9,005
2010-11	7,623	747	8,370
2011-12	6,569	689	7,258

Source : KHDC

In order to encourage young weavers from giving up their weaving profession in favour of other vocations, the following measures are suggested :

- To target covering 2,500 young weavers over a period of five years time at the rate of 500 weavers per year.
- Selection of young personnel to be done based on the aptitude and interest in taking up weaving profession and not based on any reservation criteria.
- To provide adequate skill related training to the selected candidates. The training may include basic-cum-advance design production.
- To provide free looms & accessories to all the selected weavers after completion of required training.
- These weavers have to be given attractive wages to remain in the profession which should be above the wages given under Minimum Wage Act.
- Cover these weavers under social welfare measures like subsidized housing facility, free health insurance, scholarship for children taking up higher education, etc..

The financial support required for engaging young weavers by KHDC and providing them with necessary training and other inputs may be extended by the Government initially for a period of five years.

4.1.2 Production of Cloth

KHDC has been involving their weavers in production of cotton, silk and polyester cloth. In cotton variety, the Corporation is producing Janatha and Non-janatha varieties of cloth. The total production of cloth has declined from about 109 lakh mtrs. during 2007-08 to about 85 lakh mtrs. during 2011-12 showing a decline of 22% in overall cloth production. In value terms, the Corporation has produced cloth worth about Rs.3,270 lakhs during 2007-08 and it has increased to about Rs.4,780 lakhs during 2011-12 showing an increase of 46% in value terms. The increase in value terms is due to inflation and not due to increase in production, as already revealed above. Details are shown in Table 4.2 and Graph 1 & 2.

- **Janatha Cloth :** Looking at the category-wise cloth production, substantial decline in Janatha cloth production has been observed both in quantity and value terms. The production has declined from about 11.30 lakh mtrs. during 2007-08 to about 3.10 lakh mtrs. during 2011-12 showing a decline of 73%. Similarly in value terms also, the production has declined from Rs. 234 lakhs to Rs. 102 lakhs showing a decline of 56%. It shows that the production of Janatha cloth is being gradually phased out due to decline in allocation.

- **Non-Janatha Cloth :** In the same period, decline in production of Non-janatha cloth has also been observed from about 43 lakh mtrs. to 23 lakh mtrs. (47%). The production value has increased from Rs. 918 lakhs to Rs. 1,042 lakhs (14%) due to inflation.

- **Polyester :** The polyester cloth production has remained steady during the study period. The production has remained in the range of 48 lakh mtrs. to 56 lakh mtrs. In value terms, it has increased from about Rs. 1,660 lakhs to Rs. 2,600 lakhs (57%), again due to inflation.

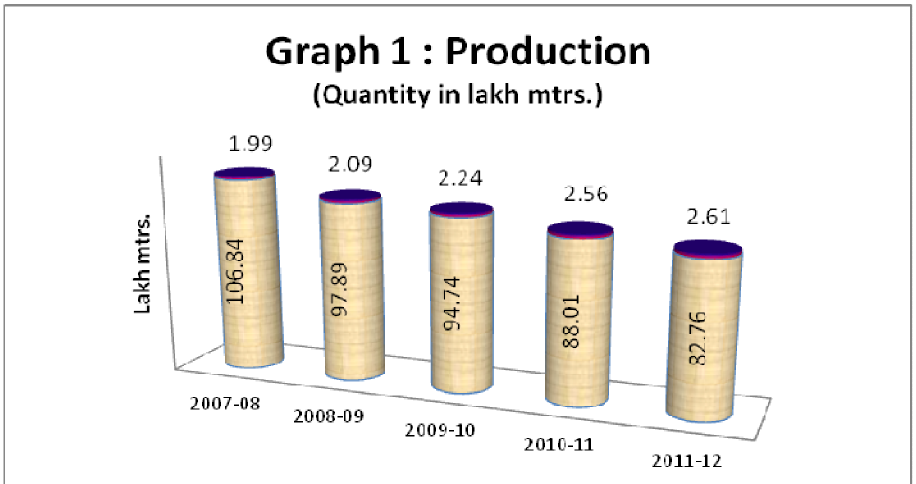
- **Silk :** It appears that, there is good demand for the silk cloth produced by the Corporation as it is revealed from the increase in production of silk cloth from 1.99 lakh mtrs. to 2.61 lakh mtrs. (31%). In value terms, it has increased from Rs. 454 lakhs to Rs. 1,028 lakhs (126%) during the study period, mainly due to increase in production as well as inflation.

Table 4.2 : Cloth Production

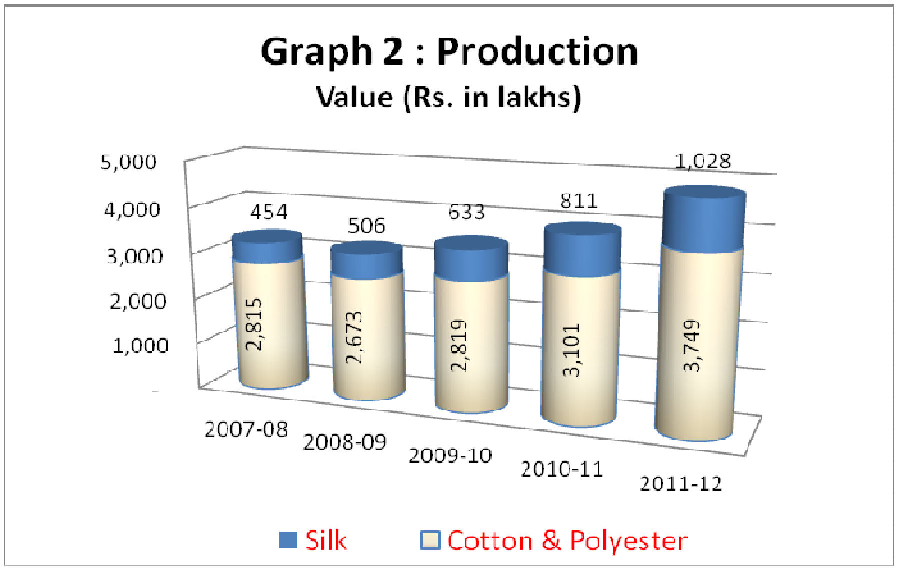
Quantity in lakh mtrs.
Value in Rs. lakhs

Year	Janatha Cloth		Non-Janatha Cloth		Polyester		Silk		Total	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value
2007-08	11.32	234	42.97	918	52.55	1,663	1.99	454	108.83	3,269
2008-09	12.21	256	37.02	887	48.66	1,530	2.09	506	99.98	3,179
2009-10	9.40	221	37.41	944	47.93	1,654	2.24	633	96.98	3,452
2010-11	10.00	270	30.05	997	47.96	1,834	2.56	811	90.57	3,912
2011-12	3.11	102	23.16	1,042	56.49	2,605	2.61	1,028	85.37	4,777

Source : KHDC Annual Report



	2007-08	2008-09	2009-10	2010-11	2011-12
Silk	1.99	2.09	2.24	2.56	2.61
Cotton & Polyester	106.84	97.89	94.74	88.01	82.76



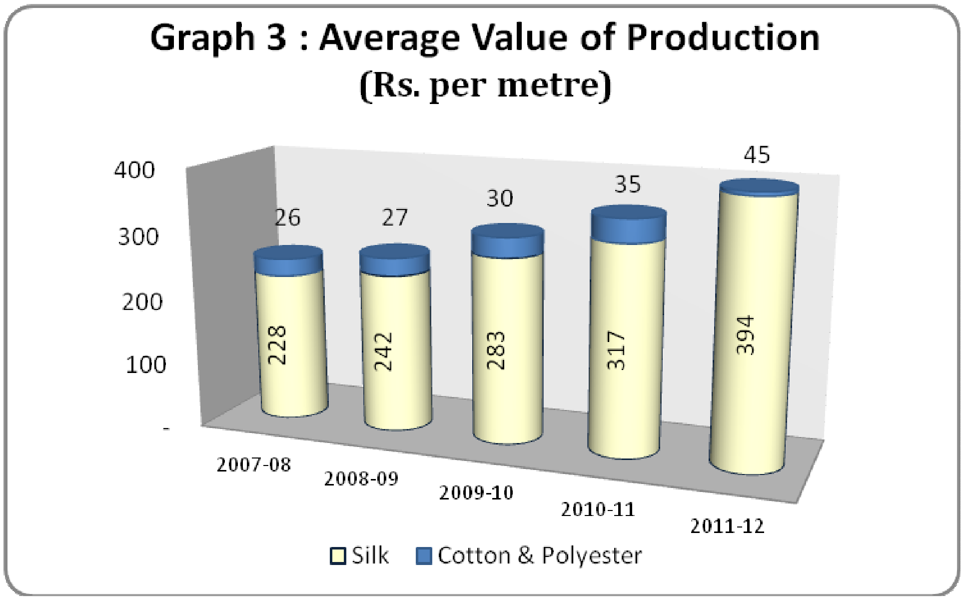
4.1.3 Average Value of Production

The average value per metre of cloth production has been studied and analyzed for cotton and polyester cloth put together and silk cloth. The average value of production per metre of cotton and polyester cloth was Rs. 26 during 2007-08 and has increased to Rs. 45 (73%) during 2011-12. In case of silk, it has increased from Rs. 228 to Rs. 394 (73%) per metre. The increase in average rate per metre of both cotton & polyester as well as silk cloth has remained same at 73%. This is mainly due to increase in raw-material and other costs. Details are shown in Table 4.3 & Graph 3.

Table 4.3 : Average Value of Production

Rs. per mtr.

Year	Cotton & Polyester	Silk
2007-08	26	228
2008-09	27	242
2009-10	30	283
2010-11	35	317
2011-12	45	394



4.1.4 Conversion Charges to Weavers

Conversion charges paid to weavers has increased from Rs. 944 lakhs during 2007-08 to Rs. 1,367 lakhs (45%) during 2011-12. The trend in increase in wage payment as well as increase in value of cloth production has remained almost same. About 1/3rd of production cost is going towards payment of wages to the weavers as revealed in Table 4.4. When compared to industry average of about 5% to 6%, towards wage payment, this is too high indicating low productivity and high cost of production.

Table 4.4 : Conversion Charges to Weavers

Year	Production Value (Rs. in lakhs)	Conversion Charges to Weavers (Rs. in lakhs)	Percentage of Production Value
2007-08	3,269	944	29
2008-09	3,179	968	30
2009-10	3,452	1,075	31
2010-11	3,912	1,204	31
2011-12	4,777	1,367	29

4.1.5 Loom Productivity

Loom productivity has been calculated considering production in metres for cotton and silk for two years period (i.e., 2010-11 and 2011-12), for which data was available (refer Table 4.5). Loom productivity is calculated by dividing production by number of working looms. The average production per loom per day in case of cotton is about 4 mtrs. for both the years and in case of silk, it has increased from 1.14 mtrs. to 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..

Table 4.5 : Loom Productivity

Year	Production (in lakh mtrs.)		Working looms (Nos.)		Productivity per loom per annum (in mtrs.)		Average Production* per loom per day (in mtrs.)	
	Cotton	Silk	Cotton	Silk	Cotton	Silk	Cotton	Silk
2010-11	90.57	2.56	7,623	747	1,188	343	3.96	1.14
2011-12	85.37	2.61	6,569	689	1,260	379	4.33	1.26

** Assuming 300 working days in a year*

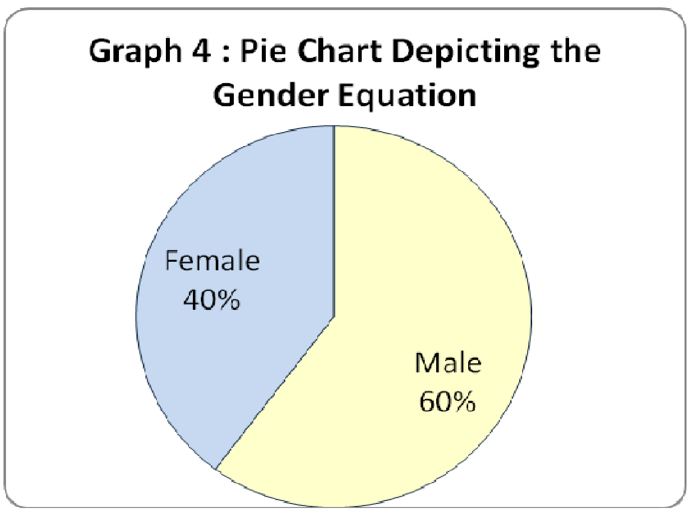
4.1.6 Gender Equation of Weavers

Gender equation of weavers working on cotton, polyester and silk looms has been studied and analyzed. The analysis reveals that totally 13,234 weavers are involved in weaving activity. Out of this, 7,979 are male and 5,255 are female weavers. Of the total weavers, 60% are male and balance 40% are female. For details, please see Table 4.6 and Graph 4.

Table 4.6 : Gender Equation of Weavers

(in Nos.)

Weavers Working on	Male	Female	Total
• Cotton looms	3,932	2,629	6,561
• Polyester	3,524	2,350	5,874
• Silk loom	523	276	799
Total	**7,979**	**5255**	**13,234**



4.2 Financial Performance

4.2.1 Income and Expenditure Statement Analysis

Income and Expenditure of the Corporation have been compiled and analyzed for the study period. The analysis details are shown in Table 4.7.

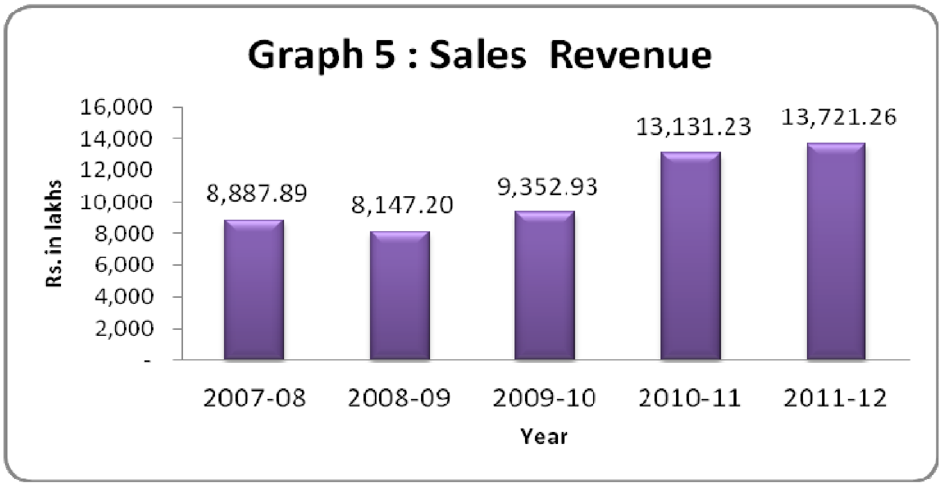
Table 4.7 : Income and Expenditure Statement

Rs. in lakhs

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
A	**Revenue from Operations**					
1	Sales	8887.89	8,147.20	9,352.93	13,131.23	13,721.26
2	Other Income	1354.58	1,017.12	1460.19	2,136.43	1,368.81
	Total Revenue	**10242.47**	**9,164.32**	**10,813.12**	**15,267.66**	**15,090.07**
B	**Expenditure**					
1	Materials consumed	1924.11	1938.34	1984.45	2,474.12	4,290.66
2	Purchases of Stock in Trade	4623.29	3720.77	4886.14	8,069.31	5,329.06
3	Employee benefit expenses	1965.32	1861.02	2913.94	3232.72	3,084.26
4	Administrative and Other overheads	1090.86	1,111.80	1,285.70	1,541.29	1,765.98
	Total Expenses	**9,603.58**	**8,631.93**	**11,070.23**	**15,317.44**	**14,469.95**
C	**Gross Profit (A - B)**	**638.89**	**532.39**	**(257.11)**	**(49.78)**	**620.12**
D	Finance costs	465.68	458.24	810.09	910.91	835.57
E	Depreciation and amortization	39.53	37.34	36.85	38.24	43.83
F	**Profit Before Taxes**	**133.68**	**36.81**	**(1104.05)**	**(998.94)**	**(259.29)**
G	**Add Other Provisions**	**58.73**	**1.10**	**(19.08)**	**0.38**	**-**
H	Profit (+) / Loss (-) after tax (F+G)	192.41	37.91	(1123.13)	(998.56)	(259.29)

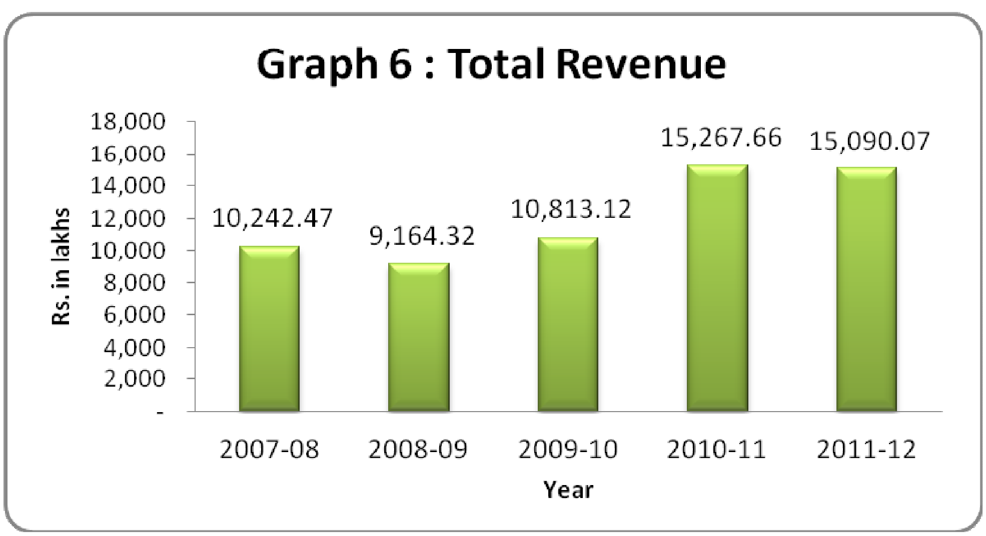
- **Revenue Analysis**

From the Table it can be observed that, the sales has increased from Rs. 8,888 lakhs during 2007-08 to Rs. 13,721 lakhs during 2011-12 as depicted in Graph 5. The sales performance has increased by 54% during this period.



Other income has shown substantial increase at Rs. 2,136 lakhs during 2010-11, whereas for remaining years, other income is in the range of Rs. 1,017 lakhs to Rs. 1,369 lakhs. The substantial increase in other income during 2010-11 is mainly due to increase in stock of Rs. 1,150 lakhs considered as part of other income forming 53% of other income. Other income mainly constitutes market assistance under IHDS, Rebate reimbursement, expenditure reimbursement under Saree and Dhothi Scheme, increase in stock mainly due to purchase under Madilu Scheme, interest on fixed deposits (margin money), etc..

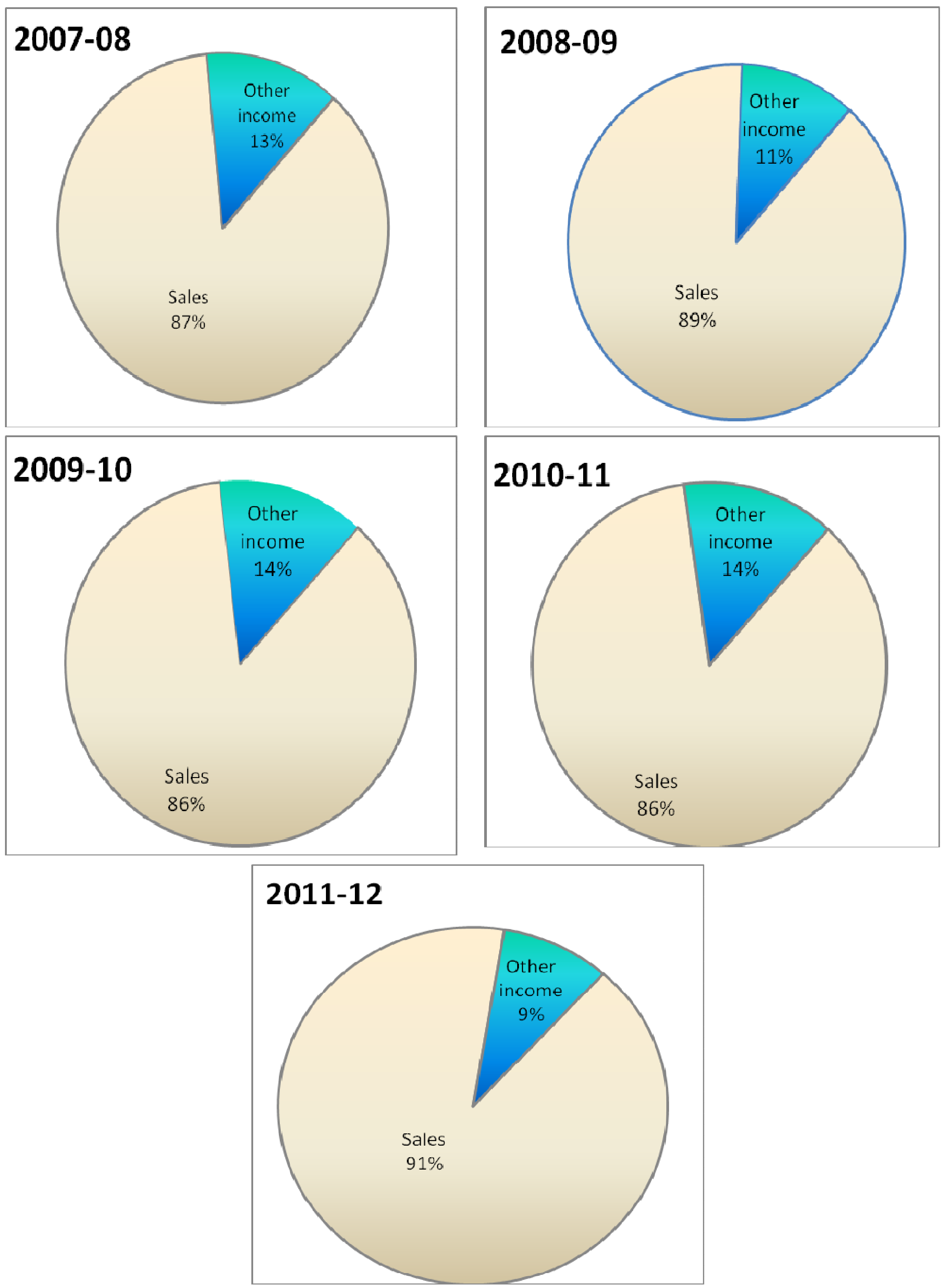
The total revenue which constitutes sales and other income has increased from Rs.10,242 lakhs during 2007-08 to Rs. 15,090 lakhs during 2011-12 as depicted in Graph 6.



- **Revenue Distribution**

Revenue distribution comprising sales and other income has been depicted year-wise for all the five years in Graph 7.

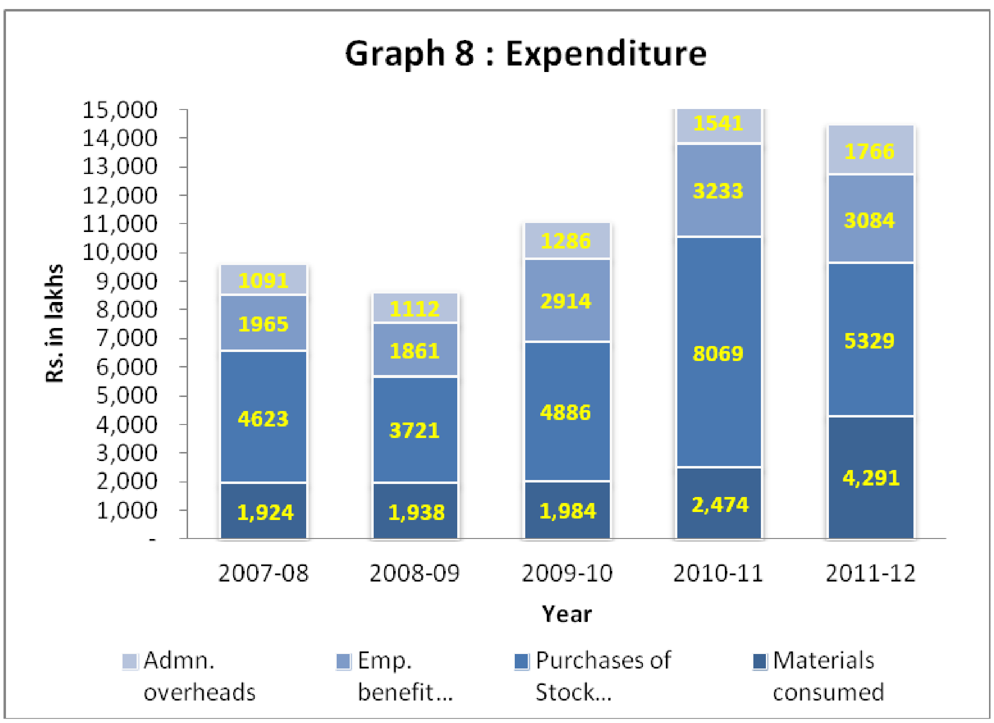
Graph 7 : Revenue Distribution



From the Graph it can be seen that the sales revenue has remained between 86% and 89% of the total revenue for the year 2007-08 to 2010-11, whereas during 2011-12, it has increased to 91% of the total revenue, whereas other income is in the range of 9% to 14% of the total revenue during the reference period.

- **Expenditure Analysis**

Expenditure statement has been compiled for all the five years under four major headings viz., Materials consumed, Purchases of Stock in Trade, Employee benefit expenses and Administrative & Other overheads for easy and comparable analysis. The expenditure is ranging between Rs. 8,632 lakhs and Rs. 15,317 lakhs during the study period. The category-wise expenditure is depicted in Graph 8.



- **Finance Costs**

Finance costs includes mainly interest payments made towards various loans availed from different sources. The loan availed includes State Government loan, cash credit accounts, loan raised against fixed deposits (margin money) and interest on delayed payments to suppliers. Within finance costs, interest payment on cash credit accounts and loan against margin money are two main factors contributing to major pay outs. The interest payment on cash credit accounts is in the range of Rs. 243 lakhs (2011-12) and Rs. 337 lakhs (2007-08). In percentage terms, it is ranging between 29% and 72% respectively. Similarly, interest payment on additional loans (margin money for working capital) is in the range of Rs. 45 lakhs (2007-08) and Rs. 462 lakhs (2011-12). In percentage terms, it is ranging between 10% and 55% respectively.

The third main factor contributing to the expenditure is the interest pay outs made to Government of Karnataka on a loan of Rs. 1,378 lakhs received towards offering VRS to 270 excess employees of the Corporation. Details of finance costs are shown in Table 4.8.

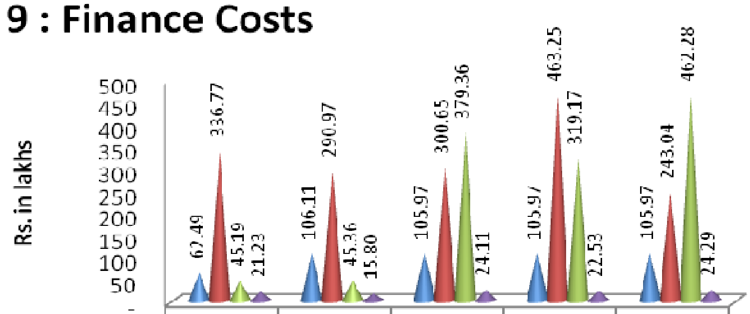
Table 4.8 : Finance Costs / Interest Payouts

Rs. in lakhs

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1	Government of Karnataka Loans	62.49 (13%)	106.11 (23%)	105.97 (13%)	105.97 (12%)	105.97 (13%)
2	Cash credit accounts	336.77 (72%)	290.97 (63%)	300.65 (37%)	463.25 (51%)	243.04 (29%)
3	Additional loans (margin money for working capital)	45.19 (10%)	45.36 (10%)	379.36 (47%)	319.17 (35%)	462.28 (55%)
4	Delayed payment to suppliers	21.23 (5%)	15.80 (3%)	24.11 (3%)	22.53 (2%)	24.29 (3%)
	Total	**465.68**	**458.24**	**810.09**	**910.91**	**835.57**

Note : Figures in parenthesis indicates percentage of total finance costs for the year

Graph 9 : Finance Costs



	2007-08	2008-09	2009-10	2010-11	2011-12
GoK Loans	62.49	106.11	105.97	105.97	105.97
CC Accounts	336.77	290.97	300.65	463.25	243.04
Addl. Loans (margin money for WC)	45.19	45.36	379.36	319.17	462.28
Delayed payment to suppliers	21.23	15.80	24.11	22.53	24.29

The large pay outs towards interest on cash credit accounts, additional loans (margin money) and State Government loans are mainly due to the following:

- The Corporation is operating on the borrowed funds from the consortium banks consisting of 9 Members banks, of which, State Bank of India is the Lead Bank.

- Under the consortium arrangement, the Corporation is enjoying the cash credit limit fixed by the consortium bankers from time to time. Presently, the cash credit limit is Rs. 2,700 lakhs and commercial rate of interest is being charged by the Banks on the cash credit limit. The interest rate presently being charged varies from 14% to 15% per annum. Cash credit limit is against hypothecation of stocks and receivables. Government of Karnataka has given a guarantee for entire cash credit limit of Rs. 2,700 lakhs which is renewable every year. The Corporation is paying 1% guarantee commission of about Rs. 27 lakhs to Government of Karnataka every year.

- KHDC, being a Corporate body, gets only small concession from Government of Karnataka in the form of interest subsidy @ 3% on the interest rate of 14% charged by the consortium bank. Whereas Co-operatives are entitled to get subsidized loan at interest rate of 8% per annum (11% - 3 % subsidy). Since the Corporation is also working for the welfare of the weavers in the State, 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.

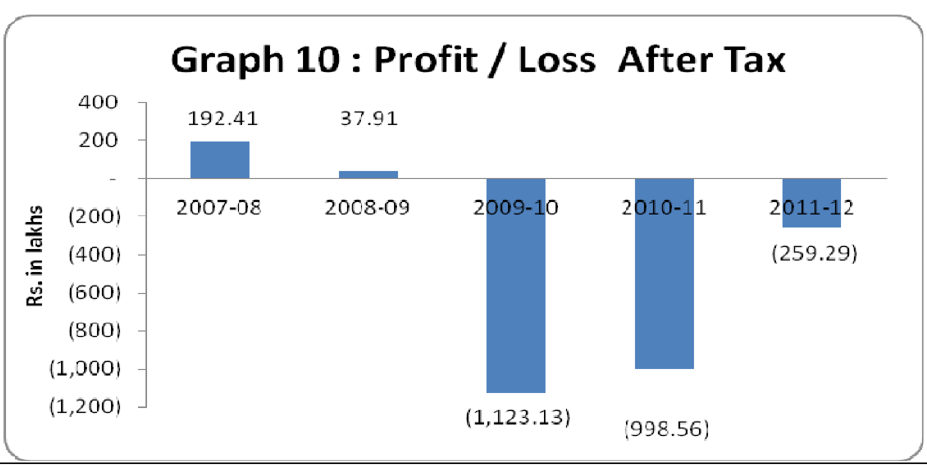
- The Corporation got Rs. 4,000 lakhs during 2004 from Government of Karnataka (Rs. 2,000 lakhs) and Government of India (Rs. 2,000 lakhs) under financial restructuring towards margin money to build a working capital corpus fund. As per the condition laid down by the Government of India, the entire margin money of Rs. 4,000 lakhs has to be deposited in a separate bank account and the KHDC may take temporary loan on fixed deposit towards working capital of the Corporation, as and when need arises. Further, the interest earned on the fixed deposit is to be re-invested in the fixed deposit account only. Presently, the Corporation has built a corpus of Rs. 6,329 lakhs. To meet the working capital needs of the Corporation, temporary loan is being drawn on fixed deposit and paying 1% interest over and above the interest rate charged on the fixed deposit. By this way, the Corporation is not getting much benefit. The Corporation is serving the weavers who are socio-economically backward section of the society residing in rural areas, engaged in weaving activity, which is low productivity in nature compared to powerloom and mill sector. The very purpose of restructuring plan offered by the Government of India is defeated if the Corporation is not allowed to utilize the interest earned on the margin money towards working capital needs. As it is the Corporation is incurring unnecessary interest burden by paying interest to the Bankers on the overdraft drawn on their own funds and the Corporation is no way benefitted. This interest rate burden is adding to the expenditure of already overstressed Corporation.

- The Corporation is paying nearly Rs. 106 lakhs every year towards interest to State Government on account on 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.

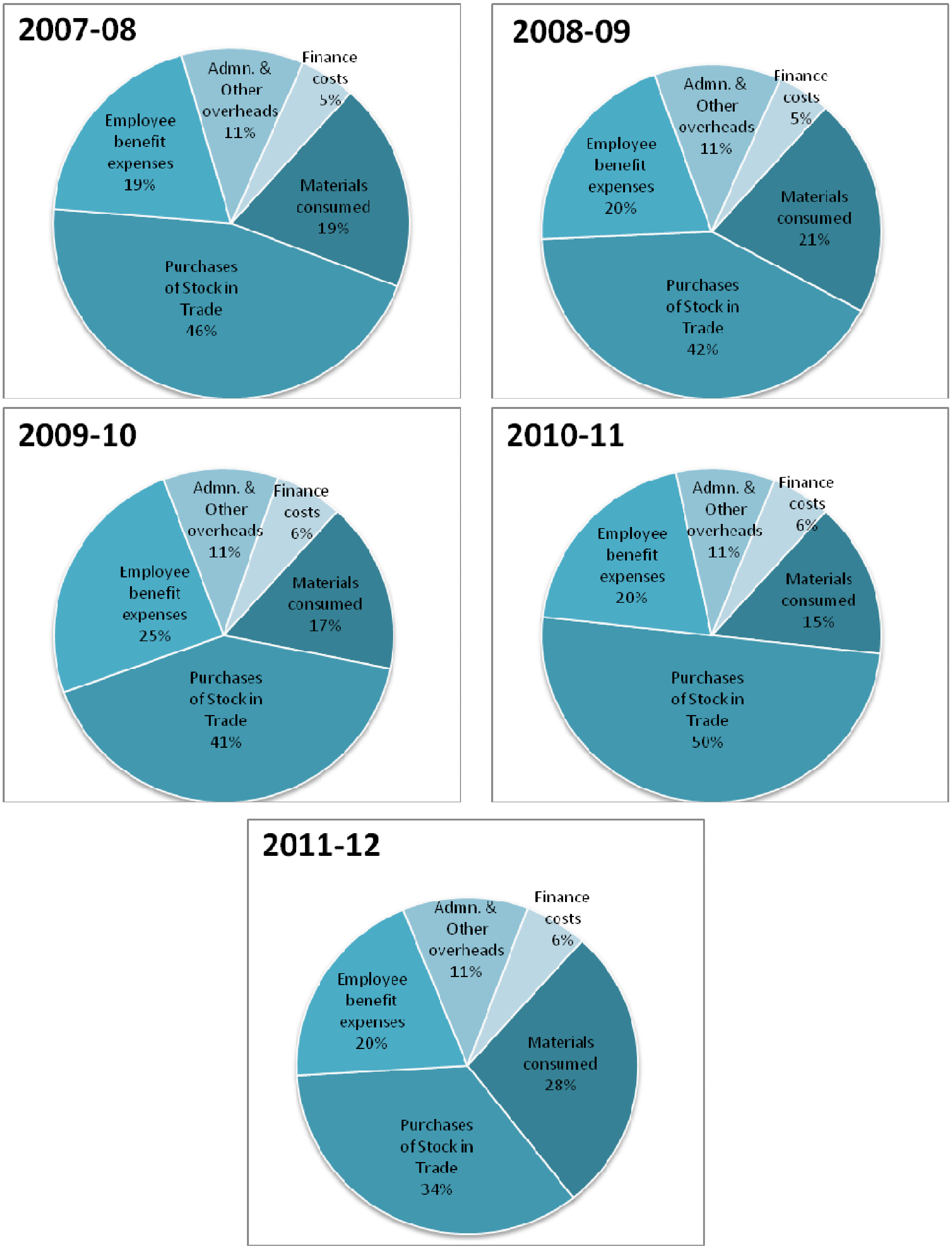
The overall expenditure is more than the revenue during 2009-10 (109%), 2010-11(106%), 2011-12 (101%). For remaining two years, the expenditure is 99% of the total revenue. The major expenditure is towards purchases of stock in trade which ranges between 35% and 53%; followed by employee benefit expenses ranging between 19% and 27%. The material consumed is forming the third major item of expenditure ranging from 16% to 28%. The administrative and other overheads are in the range of 10% to 12% and finance costs are in the range of 5% to 7%. Depreciation and amortization constitutes less than 1% during all five years. The year-wise distribution of expenditure is shown in Graph 11.

- **Profit After Tax**

Profit after tax analysis reveals that the Corporation has made loss during three out of five years of the 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, as depicted in Graph 10. The Corporation needs to work out a strategy for increasing the sales and reducing the expenditure in order to show a reasonable profit year-on-year basis.



Graph 11 : Distribution of Expenditure



4.2.2 Balance Sheet Analysis

Balance sheet analysis has been made for the Study period and given in Table 4.9.

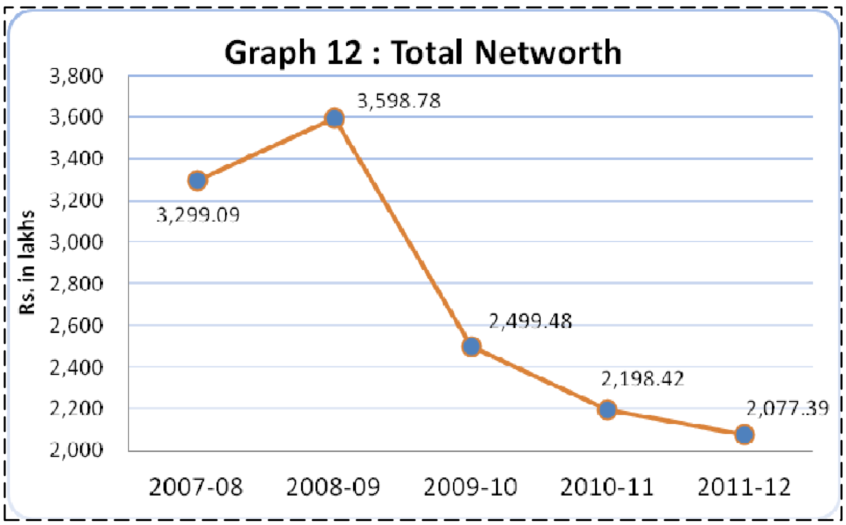
Table 4.9 : Balance Sheet Analysis

Rs. in lakhs

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Non Current Assets					
✠ Fixed Assets	793.80	823.50	816.94	939.95	1,167.30
✠ Non Current Investments	6.26	6.26	6.26	6.26	6.26
✠ Deferred Tax Assets (net)	-	-	-	-	-
✠ Long term loans and Advances	-	-	-	-	300.00
Current Assets					
✠ Inventories	3,297.65	2,960.23	3,614.20	4,913.87	5,688.46
✠ Trade Receivables	5,070.78	4,794.09	5,766.94	4,193.77	4,167.00
✠ Cash and Cash Equivalents	4,594.85	5,186.00	5,519.45	6,082.20	5,955.04
✠ Short-term loans and advances	682.11	1,031.71	1,067.82	1,039.99	1,018.06
✠ Other Current Assets	907.91	1,001.43	959.43	1,287.61	1,210.14
✠ Miscellaneous expenditure	278.41	89.93	-	-	-
✠ Profit and loss account	5,102.92	5,088.89	6,212.01	7,210.57	7,469.86
Total	**20,734.71**	**20,982.02**	**23,963.07**	**25,674.23**	**26,982.11**
Less:					
✠ Current Liabilities and Provisions	5,357.51	5,091.68	5,910.82	7,589.82	12,647.61
✠ Secured and Unsecured Loans	6,975.19	7,202.67	9,378.92	8,675.41	4,787.25
Total	**12,332.70**	**12,294.35**	**15,289.74**	**16,265.24**	**17,434.86**
Net Worth	**8,402.01**	**8,687.67**	**8,673.33**	**9,408.99**	**9,547.25**
✠ Loss for the year	(5,102.92)	(5,088.89)	(6,173.85)	(7,210.57)	(7,469.86)
Total Net worth	**3,299.09**	**3,598.78**	**2,499.48**	**2,198.42**	**2,077.39**

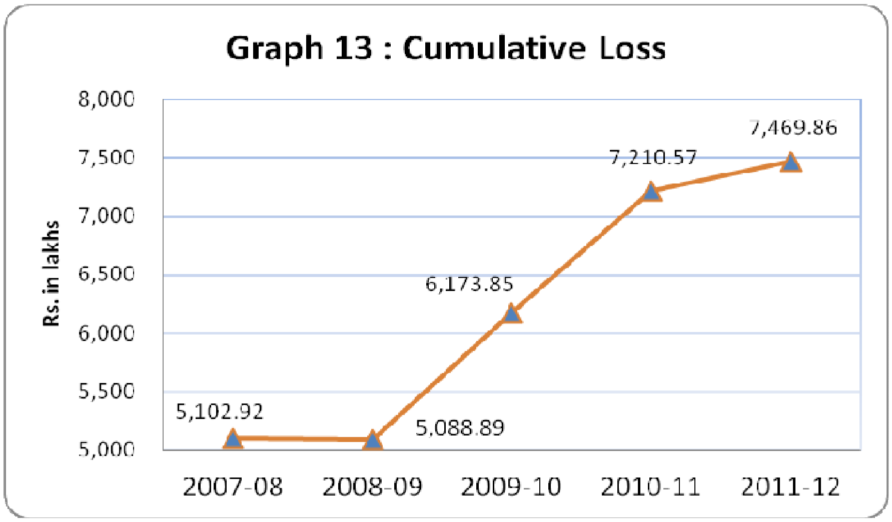
✷ Networth Analysis

From the Balance Sheet, Networth Analysis has been made for the Study period. Considering the accumulated loss for each year, total networth has been derived. 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% (please see Graph 12). This shows that the Corporation using own funds i.e., share capital and reserves & surplus for their operations which is not a good sign.



✷ Cumulative Loss

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 (please refer Graph 13). 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 to overcome the loss.



✷ Ratio Analysis

From the Balance Sheet, the following ratios have been derived:

- Current Ratio
- Quick Ratio
- Cash Ratio

Current Ratio : This indicates Company's ability to meet short-term debt obligations. This is a measure of assessing Company's ability to pay its short-term debts over the next 12 months. The current ratio can also give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. Current ratio is also known as the working capital ratio. Current ratio is calculated by dividing current assets / current liabilities.

Current ratio which was 2.77 during 2007-08 has come down to 1.43 during 2011-12. Higher the ratio, more liquid the Company is. Commonly acceptable current ratio is 2. The declining ratio shows that the liquidity of the Corporation is reducing.

Quick Ratio : Quick ratio is a measure of a Company's ability to meet its short-term obligations, using its most liquid assets (near cash or quick assets). Quick ratio is also known as the acid-test-ratio or quick assets ratio. Quick assets is calculated by dividing (current assets – inventories) / current liabilities.

Quick ratio which was 2.15 during 2007-08 has come down to 0.98 during 2011-12. Higher the ratio, better the short-term financial strength of the Company. Commonly acceptable quick ratio is 1. The declining ratio shows that the liquidity of the Corporation is reducing. Quick ratio of less than one cannot currently pay back its current liabilities. It is the bad sign of financial management.

Cash Ratio : It is the ratio of a Company's cash and cash equivalent assets to its total liabilities. Cash ratio is the most stringent and conservative of the three liquidity ratios (i.e., current, quick & cash ratio).

Cash ratio which was 0.86 during 2007-08 has come down to 0.47 during 2011-12. There is no common norm for cash ratio. 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.

Details of Current, Quick and Cash Ratios are given in Table 4.10.

Table 4.10 : Ratio Analysis

Rs. in lakhs

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Current Assets	14,831.72	15,063.38	16,927.85	17,517.44	18,038.69
Current Liabilities	5,357.51	5,091.68	5,910.82	7,589.82	12,647.61
Current Ratio	***2.77***	***2.96***	***2.86***	***2.31***	***1.43***
Inventories	3,297.65	2,960.23	3,614.20	4,913.87	5,688.46
Current Assets - Inventories	11,534.07	12,103.15	13,313.65	12,603.57	12,350.23
Quick Ratio	***2.15***	***2.38***	***2.25***	***1.66***	***0.98***
Cash and Cash Equivalents	4,594.85	5,186.00	5,519.45	6,082.20	5,955.04
Cash Ratio	***0.86***	***1.02***	***0.93***	***0.80***	***0.47***

✷ **Inventory**

Inventory of the Corporation has been compiled and analyzed in Table 4.11. Inventory as a 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. By very nature of low productivity in handlooms, the requirement for carrying high inventories prevails. But there is also need for increased regular sales for reducing the inventory carrying costs.

Table 4.11 : Inventory Cost

Year	Inventories* (Rs. lakhs)	Sales (Rs. lakhs)	Inventory as % of sales
2007-08	3,298	8,888	37
2008-09	2,960	8,147	36
2009-10	3,614	9,353	39
2010-11	4,914	13,131	37
2011-12	5,689	13,721	41

* *Inventory covers raw-materials, stores & spares, dyes & chemicals, handlooms & accessories, packing material, stocks in process, cloth and yarn with weavers*

✷ Sales during Rebate and Non-rebate periods

The slow sale is reflected in the analysis of rebate period sale and non-rebate period sale. Maximum retail sales of 95% (2012-13) is taking place during rebate period of 135 days and sales during non-rebate period - 195 days, is very meager contributing to high inventory carrying cost as can be seen from Table 4.12. The Corporation has to make efforts to balance the sales both during rebate & non-rebate period to reduce the inventory carrying costs.

Table 4.12 : Retail Sales During Rebate and Non-rebate Period

Rs. lakhs

Year	Rebate Period (135 days)	Non-Rebate Period (195 days)	Total Sales	% of Non-rebate period sales
2008-09	1466	105	1571	7
2009-10	1438	191	1629	12
2010-11	2071	124	2195	6
2011-12	2349	671	3020	22
2012-13	3448	189	3637	5

Chapter 5

REVIEW OF POST-LOOM PROCESSING FACILITIES

The Corporation has set up Post-loom Processing Facilities at Peenya II Stage, Bangalore, for processing their cloth production. The facilities created are mainly for dyeing of cotton as well as polyester cloth and printing facility for cotton materials. In addition, the processing unit has facility for dyeing of silk yarn.

5.1 Infrastructure Facilities Created

5.1.1 Land

The Corporation has been allotted 1.20 lakh sq.ft. (2.75 acres) of land for creating processing facilities. It has utilized 1.07 lakh sq.ft. (2.45 acres) of land area. The extent of land utilization is 89%.

5.1.2 Building

The built-up area of the unit is 47,000 sq.ft. and entire built-up area has been utilized.

5.1.3 Power

The Unit has connected load of 475 HP and utilized load is 375 HP.

5.1.4 Water

The Unit has water source from both BWSSB water supply as well as borewell. Water requirement per day for processing is 4,500 KL and the requirement for human consumption is 50 KL.

5.1.5 Manpower

Manpower deployed presently in post-loom processing facility is 97 persons consisting of technical 86 persons (skilled 6 numbers and unskilled 80 numbers); managerial 5 persons and others 6 persons.

5.2 Plant and Machinery

The Plant & Machinery details along with capacity of each machine are given in Table 5.1.

Table 5.1 : Plant and Machinery

Sl. No.	Particulars	Quantity (in Nos.)	Capacity per annum
1	**Yarn Dyeing**		
a)	Silk Hank dyeing machine	4	18,000 kgs.
b)	Stitching machine	-	75 lakh mtrs.
2	**Fabric Dyeing and Printing**		
a)	Jet dyeing machine (polyester cloth)	1	60 lakh mtrs.
b)	Jigger machines	3	6.50 lakh kgs.
c)	Drying machine	1	6.10 lakh kgs.
d)	Stentering machine	1	12.60 lakh kgs.
e)	JT-10 machine	2	7.20 KL
f)	Zero zero machine	1	66 lakh mtrs.
g)	Folding machine	2	36 lakh mtrs.
h)	Printing machine (flat bed)	1	27 lakh mtrs.
i)	Polymerization machine (fabric curing after printing)	1	
3	**Other Auxiliary Machine**		
a)	D.G. Set (250 KVA)	1	
b)	Boiler (3 Tonne)	1	
c)	Baby boiler (200 kgs. capacity)	1	
d)	Thermo pack machine	1	
e)	Jumbo Electric Truck	1	
f)	Hydraulic bale press	1	
g)	Handling equipment	25	
h)	Rope opener	1	
i)	Scouring and bleaching machine	2	
j)	Effluent Treatment Plant		

Note : *Silk yarn dyeing capacity is for single shift, whereas other capacity is for three shifts production*

Of the above machinery, flat bed printing machine and polymerization machine are not being used as they have become old, outdated and out of order. These machines were mainly used for printing of Janatha sarees and presently the production of Janatha sarees has been phased out since there is no order from State Government.

5.3 Production Details

The production details for silk yarn dyeing, cotton fabric and polyester blended fabric and fabric printing from 2008-09 to 2012-13 are given in Table 5.2.

Table 5.2 : Production Details

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1	Yarn dyeing (in kgs.) silk	8,429	6,084	9,778	10,772	8,298
2	Fabric Dyeing (in lakh mtrs.)					
	a) Cotton	23.76	23.35	24.68	15.16	1.52
	b) Polyester blend	0.11	0.02	0.16	0.04	18.17
3	Fabric printing (in lakh mtrs.)	3.68	4.29	2.95	0.16	0.40

From the Table it may be observed that, silk yarn dyeing production has ranged between 6,084 kgs. (2008-09) and 10,772 kgs. (2011-12) as against available capacity of 18,000 kgs. per annum per shift of 8 hours. There is scope for increasing the production upto 15,000 kgs. per annum assuming maximum capacity utilization of 80%.

The cotton fabric dyeing production has reduced from a maximum of 24.68 lakh mtrs. per annum during 2010-11 to 1.52 lakh mtrs. during 2012-13. Whereas, polyester blended fabric dyeing production has increased from a meager 0.02 lakh mtrs. during 2009-10 to a high of 18.17 lakh mtrs. during 2012-13. During discussion with Process House Management, it was revealed that, the fabric dyeing facilities are mainly used for dyeing polyester blended fabric produced for Vidya Vikasa Scheme. Whereas, dyeing of fabric produced in-house for retail and other sales are being outsourced. In quantity terms about 3 lakh kgs. of fabric is presently being processed in Peenya Process House and about 3 lakh kgs. of fabric dyeing is being outsourced. Presently, roughly about 50% of the fabric dyeing capacity is being utilized assuming jigger capacity as the limiting factor. There is scope for increasing the cloth dyeing production to 6 lakh mtrs. per annum.

5.4 Economics of Production

Economics of production through post-loom processing facility and outsourcing has been worked out in discussion with process house management. Assuming 50% of the production of cotton and blended cloth is being processed at Peenya Process House, the cost of production works out to about Rs. 16 per metre of cloth processing calculated as follows:

✠ Production during 2011-12	:	82.76 lakh mtrs.
✠ 50% of production processed in-house	:	41.38 lakh mtrs.
✠ Yarn & cloth processing expenditure incurred during 2011-12	:	Rs. 634
✠ Processing charge per metre of cloth	:	Rs. 15.32
✠ Add Interest & Depreciation cost @ 6%	:	Rs. 0.92
Total	**:**	**Rs. 16.24**
Say	**:**	**Rs. 16 per metre**

As against the above charges, the outsourcing charges for dyeing and printing of fabric works out to about Rs. 8 per mtr., which is 50% less than the cost of in-house processing.

The yarn and cloth processing charges incurred by the Corporation during the last five years has been compiled and given in Table 5.3.

Table 5.3 : Processing Charges

Year	Admn. & Other overheads (Rs. lakhs)	Yarn & Cloth Processing charges (Rs. lakhs)	% of Admn. & Other overheads
2007-08	1,090.86	566	52
2008-09	1,111.80	680	61
2009-10	1,285.70	623	48
2010-11	1,541.29	602	39
2011-12	1,765.98	634	36

The processing charges as a percentage of administrative and overhead costs is ranging between 36 % and 61% which forms the major portion of the administrative and other overhead costs. 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 Peenya Textile Process House (PTPH) and utilize the assets for other productive use.

Chapter 6

REVIEW OF SCHEMES AND PROGRAMMES IMPLEMENTED BY KHDC

The Corporation is operating & implementing three major Schemes of Government of Karnataka. They are –

- Vidya Vikasa Scheme (VVS)
- Subsidized Saree Dhothi Scheme (SSDS)
- Madilu

6.1 Vidya Vikasa Scheme

Vidya Vikasa Scheme (VV Scheme) is a Government Scheme sponsored by Education Department. The Scheme is in operation since 1987-88. This Scheme is for providing free uniform to school children. The Scheme has been extended to High School Girl students from 2003-04. The Corporation has been entrusted with the responsibility of supplying uniforms to the school children based on the orders from the Education Department.

6.1.1 Orders Executed

The Corporation has supplied 43.11 lakh sets of uniform valued at Rs. 4,163 lakhs in three divisions viz., Gulbarga, Mysore and Bangalore during 2007-08. The orders from Education Department has been gradually reducing as can be seen from Table 6.1, the supply of uniforms made during 2007-08 to 2011-12 (reduced from 43.11 lakh sets to 20 lakh sets. In value terms also, it has reduced from Rs. 4,163 lakhs (2007-08) to Rs. 3,029 (2011-12). Even allocation of number of divisions by the Education Department has reduced to two divisions.

Table 6.1 : Orders Executed under VV Scheme

Year	Uniform sets supplied (lakh sets)	Value of supply (Rs. in lakhs)	Divisions covered
2007-08	43.11	4,163	Gulbarga, Mysore and Bangalore
2008-09	43.16	4,399	-do-
2009-10	32.15	4,410	-do-
2010-11	28.18	3,466	-do-
2011-12	20.00	3,029	Gulbarga and Bangalore

6.1.2 Contribution of Vidya Vikasa Scheme to Total Sales

Contribution of Vidya Vikasa Scheme to Total Sales has been studied and analyzed. VV Scheme is a major contributor to total sales during all the five years of study period. VV Scheme though major contributor in total sales, the contribution is reducing gradually year-on-year basis as can be seen from Table 6.2. The total sales under VV Scheme was Rs. 5,968 lakhs contributing to 63% of the total sales during 2007-08 and has reduced to Rs. 4,522 lakhs contributing 31% of the total sales during 2011-12. The reduction in contribution of VV Scheme in total sales may be due to inability of the Corporation to supply the requirements of Education Department at competitive rates and also due to reduction in working looms.

6.1.3 Contribution of Vidya Vikasa Scheme to the Total Loss

As suggested in the Technical Committee Meeting of KEA held under the Chairpersonship of the Principal Secretary, Planning, Plan Monitoring and Statistics on 26.05.2014, the contribution of VV Scheme to the profit / losses of the Corporation during the last three years (2010-11 to 2012-13) was analyzed based on the information provided by the Corporation.

The Corporation has supplied uniform sets to Education Department under VV Scheme. The cloth used for uniform sets includes 20s x 20s navy blue casement; 2/60s PV shirting and 2/30s PC suiting. The Corporation has utilized 102.10 lakh mtrs. of fabric during 2010-11; 74.82 lakh mtrs. during 2011-12 and 69.88 lakh mtrs. during 2012-13 for supply of uniform sets. The cost of production of the uniform sets for all the three years has exceeded cost of sales. In view of this, the Corporation has incurred loss of Rs. 1,339 lakhs during 2010-11; Rs. 672 lakhs during 2011-12 and Rs. 1,319 lakhs during 2012-13. The Corporation is seeking increase in the supply rates from the Education Department. However, it has been informed that, the Corporation has acceded to the request of the Corporation and increased the rates by 20% for the academic year 2014-15. Details of production cost and selling cost to Education Department as well as difference in the production and selling cost are given in Table 6.3.

Table 6.2 : Contribution of Vidya Vikasa Scheme to Total Sales

Sl. No.	Segments	2007-08	2008-09	2009-10	2010-11	2011-12	Avg. Sales (2007-08 to 2011-12)
1	Retail Sales	1,693 (18%)	1,571 (18%)	1,610 (16%)	2,247 (16%)	2,954 (20%)	2,015 (18%)
2	Wholesale Sales	1,410 (15%)	2,022 (23%)	3,256 (33%)	6,955 (50%)	6,973 (47%)	4,123 (36%)
3	SSDS	359 (4%)	314 (4%)	343 (3%)	259 (2%)	253 (2%)	306 (3%)
4	VV Scheme	5,968 (63%)	4,731 (55%)	4,630 (47%)	4,352 (31%)	4,522 (31%)	4,841 (43%)
5	Other Sales	51 (1%)	25 -	33 -	74 (1%)	36 -	44 -
	Total	**9,481**	**8,663**	**9,872**	**13,888**	**14,737**	**11,328**
6	Less Discount/Rebate	593	516	519	756	1,016	680
7	**Net Sales**	**8,888**	**8,147**	**9,353**	**13,131**	**13,721**	**10,648**

Note : Figures in parenthesis indicates percentage of total costs for the year

Table 6.3 : Operation Cost under Vidya Vikasa Scheme

Particulars	2010-11			2011-12			2012-13		
	20s x 20s Navy Blue Casement	2/60s PV shirting	2/30s PC suiting	20s x 20s Navy Blue Casement	2/60s PV shirting	2/30s PC suiting	20s x 20s Navy Blue Casement	2/60s PV shirting	2/30s PC suiting
Grey yarn cost	19.26	18.95	46.45	26.50	22.49	52.04	25.57	26.89	70.56
Add : Conversion charges	8.20	12.65	14.50	8.20	12.65	14.50	10.00	20.00	23.00
Add : Sizing Charges	1.25	1.00	2.30	1.25	1.00	2.30	1.52	1.40	2.30
Total Cost	**28.71**	**32.60**	**63.25**	**35.95**	**36.14**	**68.84**	**37.09**	**48.29**	**95.86**
Add: Processing charges	8.16	5.00	15.50	8.35	5.10	16.00	9.25	6.00	18.10
Add: Wastage	3.69	3.76	7.88	4.43	4.12	8.49	2.32	2.71	5.70
Total Cost	**40.56**	**41.36**	**86.63**	**48.73**	**45.36**	**93.33**	**48.66**	**57.00**	**119.66**
Add: 30% overhead	12.17	12.41	25.99	14.62	13.61	28.00	14.60	17.10	35.90
Total Cost	**52.73**	**53.77**	**112.62**	**63.35**	**58.97**	**121.33**	**63.26**	**74.10**	**155.56**
Net selling cost to ED	36.59	45.15	88.20	47.50	54.00	112.00	57.00	54.00	112.00
Difference	16.14	8.62	24.42	15.85	4.97	9.33	6.26	20.10	43.56
Fabric consumed in lakh mtrs.	32.06	56.24	13.80	23.55	41.25	10.02	22.01	38.53	9.34

6.1.4 Problems in Execution of Orders under VV Scheme

The Corporation is unable to plan and organize supply of uniforms under VV Scheme due to delay and uncertainty in receiving supply orders from the Education Department. Therefore, there is need for Education Department to 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 of the order.

6.2 Subsidized Saree Dhothi Scheme (SSDS)

It is a Government of Karnataka Scheme for supply of subsidized Saree Dhothi to the poor and under-privileged section of the society. The Scheme is in operation since 1985. BPL card holders are the beneficiaries of the Scheme. The budgetary allocation under the Scheme has reduced from an all-time high of Rs. 1,700 lakhs to Rs. 150 lakhs during 2011-12. The Corporation is the Nodal Agency for implementing the Scheme.

6.2.1 Orders Executed

The supply of Sarees and Dhothis under the Scheme is reducing from year-on-year basis. The number of sarees and Dhothis supplied was 1,06,558 and 1,73,304 respectively during 2007-08 and has reduced to 35,700 sarees and 96,000 Dhothis during 2011-12. In value terms also, reduction can be seen from Rs. 359 lakhs to Rs. 253 lakhs. For details, please refer Table 6.4.

Table 6.4 : Orders Executed under SSDS

Year	Supply (Nos.)		Value
	Sarees	Dhothis	(Rs. in lakhs)
2007-08	1,06,558	1,73,304	359.03
2008-09	99,527	1,77,630	314.40
2009-10	74,143	1,41,950	342.97
2010-11	45,800	1,41,750	259.49
2011-12	35,700	96,000	253.09

6.2.2 Contribution of SSDS to Total Sales

Contribution of SSDS to Total Sales has been studied and analyzed. SSDS to total sales is very small. The contribution of SSDS to total sales was 4% during 2007-08 and has reduced to 2% during 2011-12. Even in value terms, the contribution has come down from Rs. 359 lakhs during 2007-08 to Rs. 253 lakhs during 2011-12 as can be seen from Table 6.2. The reduction in contribution to total sales is due to gradual reduction in budgetary allocation under SSDS.

6.3 Madilu

Madilu Scheme started by Government of Karnataka to provide post natal care for mother and the child. The objective of this scheme is to encourage poor pregnant women to deliver in health centres and hospitals in order to considerably reduce maternal and infant mortality in the State. The kit mainly consists of bed sheet, carpet, towel, rubber sheet, diapers, toiletries, etc.. This Scheme is implemented by Health & Family Welfare Department in the State and Bruhat Bangalore Mahanagara Palike in Bangalore. KHDC has been made Nodal Agency for supply of Madilu Kits in the State. The supply under this Scheme is increasing year-on-year basis. The supply during 2007-08 was Rs. 1,066 lakhs and has increased to Rs. 5,165 lakhs during 2011-12. The supply under this Scheme constitutes about 74% of the total wholesale sales and 35% of total sales during 2011-12. The details are given in Table 6.5.

Table 6.5 : Madilu Kits

Rs. in lakhs

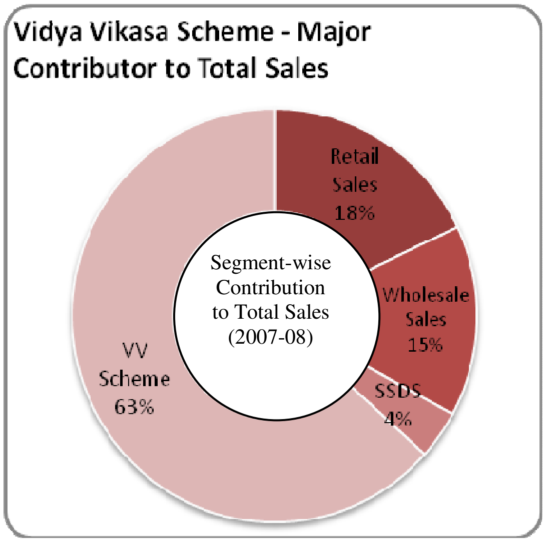
Year	Wholesale Sales	Total Sales	Revenue from supply of Madilu Kits	% to Wholesale Sales	% to Total Sales
2007-08	1,410	9481.09	1,066	76	11
2008-09	2,022	8663.08	1,531	76	18
2009-10	3,256	9872.35	2,638	81	27
2010-11	6,955	13887.51	3,374	49	24
2011-12	6,973	14737.10	5,165	74	35

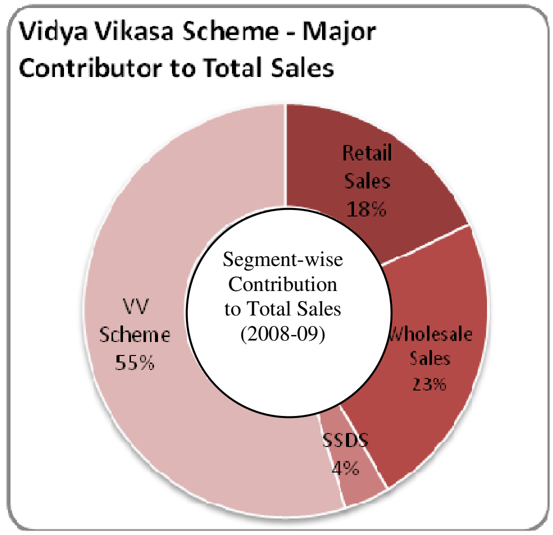
Under this Scheme, the Corporation is outsourcing all the items supplied under Madilu kits Scheme. This Scheme is helping the Corporation in enhancing the total sales and the income.

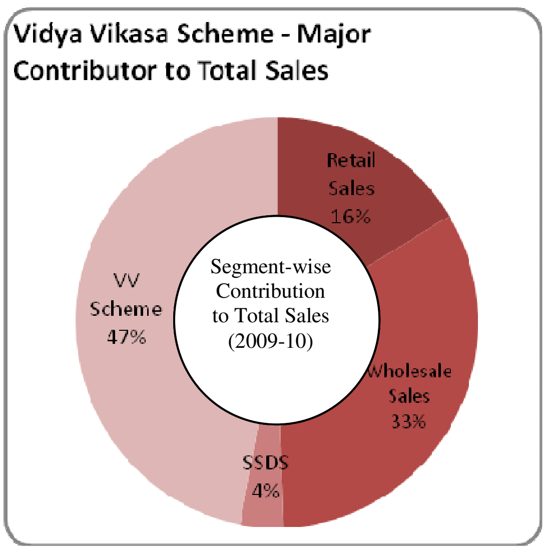
6.4 Overall Sales Performance

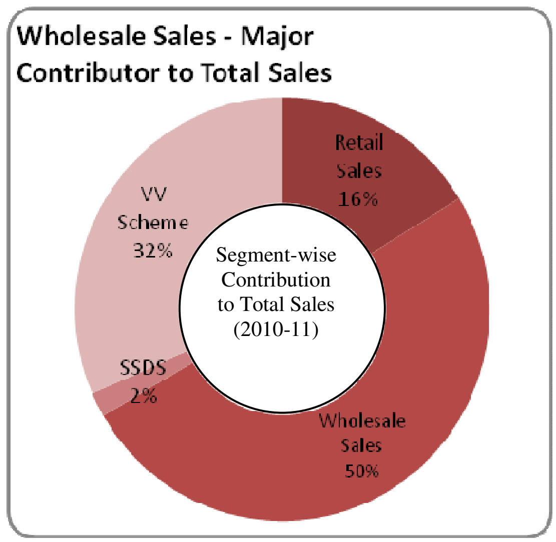
Overall Sales Performance of the Corporation has been analyzed for the Study period (please see Table 6.2). The analysis of the average sales performance of different segments reveals that VV Scheme is contributing maximum of 43% to the total sales followed with wholesale sales – 36%, retail sales – 18% and SSDS – 3%. Year-wise and segment-wise sales performance is depicted graphically in Graph 14. The major contribution to the total sales (80%) is mainly coming from Government Schemes such as Vidya Vikasa, Madilu and other wholesale sales through Departments such as Police, Health, Public Sector Undertakings, etc.. Without Government support, existence of KHDC itself becomes difficult. However, KHDC has to make efforts to increase retail sales through upgradation of weavers skill, enrollment of enterprising weavers artisan, development of niche products catering to affluent society in urban market, product diversification through introduction of improved & new designs periodically, improving the marketing skills of the sales staff, upgradation of showrooms, etc..

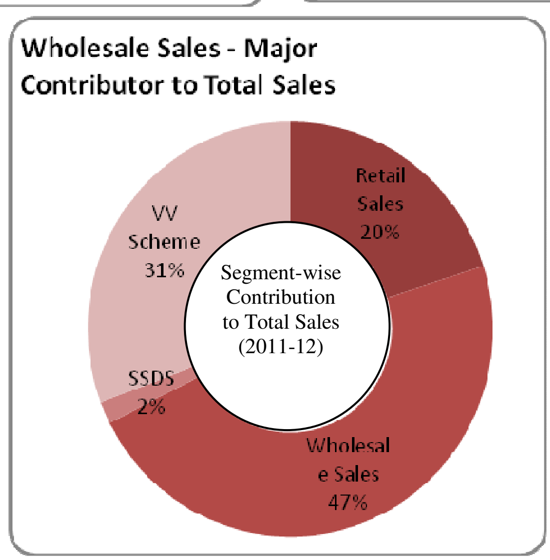
Graph 14 : Year-wise and Segment-wise Sales Performance











Chapter 7

REVIEW OF EXISTING PRODUCT RANGE OF KHDC

The Corporation is meeting clothing requirements for different purposes by in-house production as well as outsourcing.

7.1 In-house Production

Under in-house production, the Corporation is manufacturing items such as dress materials, sarees, bedspreads / bed sheets / bed linen, towels and carpets, dhothi / lungi and hankies under Cotton / Polyester varieties. In-house production in case of silk varieties includes - sarees (traditional), home furnishings (curtains, sofa cloth, table linen, etc.) (Dupion), silk running material, shalya & dhothi.

The major items manufactured in-house mainly includes dress material, sarees, bedspreads / bed sheets / bed linen, towels & carpets in case of cotton / polyester varieties and sarees, silk running materials are the two major varieties manufactured under silk. The brief description of the items manufactured by the Corporation are given as follows:

- **Woven Shirting :** Woven shirting in Polyester Viscose, Polyester Cotton and 100% Cotton yarn are available in Pastel, Medium and Dark shades and also in woven stripes and Check patterns

- **P.C. Suiting Materials :** Polyester Cotton Suiting materials are available in different shades. The fabric particulars are 2/30s x 2/30s PC yarn and fabric width is 137 to 138 cms.

- **Woven Towels :** Woven Towels are manufactured by using 2/20s x 2/20s, 2/20s x 10s Cotton yarn in Honeycomb and Huck-a-back weaved so that moisture is absorbed immediately.

- **Turkey Towels :** Turkey Towels are manufactured with 2/20s cotton yarn. These towels are manufactured in white, plain shades apart from woven stripes & Jacquard designs.

- **Napkins :** Napkins are available in different sizes like 16" x 24" and these Napkins are produced by using 2/40s x 2/40s, 2/30s x 2/30s, 2/20s x 2/20s Cotton Yarn.

- **Illkal** Traditional Sarees : Illkal Traditional Sarees are manufactured with Artsilk warp yarn x Cotton weft yarn & available in shot colours weaving with Maroon colour border and pallu.

- **Traditional Udupi / Mangalore Sarees :** Traditional Udupi / Mangalore Sarees are available in various designs with assorted colour combinations. 80s finer Count Cotton Yarn in length of 5.5 mtrs.

- **Bandage Cloth :** Gauze, P.O.P and Close Woven Bandage Cloth are available in bulk quantities required for Hospitals, Medical Institutions etc. Close woven Bandage cloth manufactured is in accordance with the Drugs & Cosmetics Act and available in 100 cms width.

- **Cotton Bedsheets :** Cotton Bedsheets in woven stripes, Checks, in plain weave and also Dobby and Jacquard designs.

- **Wider Width Bedsheets :** Wider Width Bedsheets are produced in 90" x 108" sizes in Pure Cotton Yarn are of Special exclusive designs created by NID, NIFT and other Freelance Designers.

- **Furnishing Materials :** Furnishing Materials are produced in Pure cotton yarn. Furnishing materials are available in different colours & Jacquard designs.

- **Carpets & Durries :** Carpets and Durries are available in various sizes. These carpets and durries are produced in different sizes, design & colours.

- **Traditional Silk Sarees :** Magnificent creations inspired by the rich heritage of Indian tradition and culture. Superb sarees in a blend of eco-friendly colours, traditional and contemporary art and history to enhance the beauty of woman.

- **Printed Silk Sarees :** Sarees in a gamut of designs that are appealing and splendid. Printed silk sarees is made using a variety of fabrics. These include cotton, crepe, georgette, chiffon and other suitable materials.

- **Silk Home Furnishing:** Silk Furnishing Materials are produced in Pure Silk. Furnishing materials are available in different colours & Jacquard designs.

7.2 Outsourced Production

The Corporation is outsourcing certain items for meeting the clothing requirements for different purposes. Major items outsourced includes woolen blankets, cotton grey cloth, polyester cloth such as shirting, sarees, suiting, etc.. A comparison was made to ascertain the percentage of cloth outsourced vis-à-vis total production. Comparison was made for four years i.e., 2008-09 to 2011-12 for which, data was available. The value of cloth outsourced has increased from about 1% of total production during 2008-09 to 42% during 2011-12 (please see Table 7.1). The increase in outsourced value is mainly due to reduction in working looms of the Corporation.

Table 7.1 : Outsourced Production

Year	Production Value (Rs. in lakhs)		%
	Total	Outsourced	
2008-09	3,179	24	1
2009-10	3,452	79	2
2010-11	3,912	526	13
2011-12	4,777	2,009	42

Under existing product range of the Corporation, product such as 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 Corporation has to take up a general market survey study to ascertain the varieties which are in great demand and try to manufacture either in-house or outsource to enhance the sales turnover. The Corporation may also compare the products range marketed by well known showrooms such as Fab India, Desi and other well known showrooms to find out the products which are in demand and try to incorporate the same in their production schedule.

Chapter 8

REVIEW OF SHOWROOM PERFORMANCE OF KHDC

The Corporation has 50 showrooms under its fold doing retail sales. These showrooms are located mainly in major cities and district & taluk headquarters of Karnataka. There are few showrooms outside Karnataka in major metros viz., Kolkata, Delhi, Chennai and Navi Mumbai. One showroom located at Hyderabad city has been closed.

The showrooms have been categorized into four groups - 'A' to 'D' Grade according to the location viz., Bangalore based and other major city showrooms outside the State ('A' Grade Showrooms); Showrooms located at Tier-II City / District Headquarters ('B' Grade Showrooms); Showrooms located at Tier-III City / District Headquarters ('C' Grade Showrooms); Showrooms located at Towns / Taluk Headquarters ('D' Grade). There are 21 'A' Grade Showrooms; 10 'B' Grade Showrooms; 16 'C' Grade Showrooms and 3 'D' Grade Showrooms.

The average sales per showroom have been worked out for each showroom considering the five years annual sales from 2008-09 to 2012-13 for the respective showrooms. The average sales per showroom for the particular category have been summed up in order to arrive at grand average sales per year per showroom. Accordingly, grand average sales per year per showroom for 'A' Category Showrooms is Rs. 70.32 lakhs; 'B' Category Showrooms is Rs. 46.61 lakhs; 'C' Category Showrooms is Rs. 25.13 lakhs and 'D' Category Showrooms is Rs. 15.07 lakhs.

Showrooms whose average turnover less than 50% has been considered as non-performing. There are 5 showrooms in 'A' Category viz., Peenya, Kolkata – Garihatta, Kolkata – Manikthala, Chennai, Navi Mumbai, whose performance is less than Rs. 35 lakhs. In case of 'B' Category, all the showroom performance is above 50% of the average sales (Rs. 23.50 lakhs) and therefore considered as performing showrooms. Bagalkote and Bijapur in 'C' Category are considered non-performing since sales less than Rs. 12.50 lakhs. In Category 'D' showroom, all the three showrooms are considered to be performing. As per the information given by the Corporation, Peenya showroom in 'A' category has been started about four years back. It is too short a period to assess the performance of this showroom. Though Peenya Showroom is a non-performer, the Corporation may postpone decision on closure of this showroom. The Corporation may decide to close down four showrooms in 'A' Category Kolkatta - Garihatta, Kolkatta- Manicktala, Chennai & Navi Mumbai and two showrooms in 'C' Category viz., Bagalkote and Bijapur, as these are considered to be non-performing. These showrooms have been suggested to be closed down since discussion with the key Officers of Marketing Division as well as showroom personnel revealed that the poor sales performance are mainly due to the following :

- Non-availability of sufficient marketable stock / varieties
- High cost of handloom products compared to mill / organized powerloom sector fabrics
- Maximum sales happening only during rebate period
- Stiff competition from trendy malls as well as corporate retail chains offering variety of products / choice under one roof with better ambience

The showroom-wise and year-wise sales performance of all the showrooms have been compiled and shown as Table 8.1. The category-wise average sales performance is shown in Table 8.2.

Table 8.1 : Performance of Showrooms

Unit	No. of Staff	Sales (Rs. in lakhs)					Average Sales / showroom
		2008-09	2009-10	2010-11	2011-12	2012-13	
Bangalore Based and Other Major City Showrooms outside the State - 'A' Grade Showroom							
Kamaraj Road	2			15.81	66.43	84.66	55.63
Indiranagar (seconds)	4	35.55	41.34	81.59	112.54	115.01	77.21
Jayamahal	6	100.02	103.66	117.45	164.94	170.97	131.41
Jayanagar	5	79.07	85.38	135.75	172.12	204.58	135.38
Koramangala	3	35.77	40.42	62.18	67.86	76.79	56.60
K.G. Road	5	50.32	75.02	101.05	131.75	139.36	99.50
Malleshwaram	5	38.68	51.79	76.74	96.38	95.36	71.79
Mission Road	4	36.54	46.60	70.25	84.79	91.25	65.89
M.G. Road	3	32.79	22.43	40.31	65.17	66.52	45.44
Rajajinagar	7	43.86	62.51	103.31	133.19	146.41	97.86
Subashnagar	4	38.57	42.54	56.54	76.01	83.92	59.52
Shirt and Saree Shop, Ulsoor	6	77.92	54.52	108.47	166.63	250.06	131.52
Peenya	4	3.64	3.07	7.45	62.21	67.33	28.74
Indiranagar (sound)	3					87.95	87.95
V.V. Puram	5				99.56	149.47	124.52
Kolkatta - Chowringhee	2	26.43	25.86	33.34	41.90	59.67	37.44
Kolkatta - Garihatta	2	14.34	13.64	19.77	26.06	36.33	22.03
Kolkatta - Manicktala	2	14.88	17.37	23.21	24.50	33.38	22.67
Chennai	2	24.29	22.00	24.00	35.37	40.22	29.18
Delhi-Bhikaji cama	4	39.16	46.79	91.44	116.18	73.86	73.49
Navi Mumbai	1	16.30	19.29	19.24	28.48	32.06	23.07
Total A							**1,476.82**
Showrooms located at 'B' Grade Cities / District Headquarters							
Mangalore	2	29.58	20.72	38.97	59.91	72.61	44.36
Mysore Palace	2				32.02	31.75	31.89
Mysore	2	66.98	80.53	130.57	90.85	121.60	98.11
Tumkur	4	37.48	38.70	77.62	67.19	68.96	57.99
Udupi	2			8.66	40.15	51.15	33.32
Belgaum	2		26.91	46.15	51.76	141.29	66.53
Dharwad	2	20.27	21.07	31.47	34.40	23.28	26.10
Gulbarga	2	18.30	18.39	35.77	53.07	42.81	33.67
Hubli C. Market	3	15.15	20.36	27.80	50.28	77.72	38.26
Hubli HDMC	2	18.96	21.80	32.89	52.38	53.29	35.86
Total B							**466.08**

Unit	No. of Staff	Sales (Rs. in lakhs)					Average Sales / showroom
		2008-09	2009-10	2010-11	2011-12	2012-13	
Showrooms located at 'C' Grade Cities / District Headquarters							
Hassan	5	30.02	27.53	38.01	45.01	55.06	39.13
Kolar	2	19.96	24.28	37.27	37.85	39.39	31.75
Mandya	3	6.05	16.87	24.71	27.68	33.29	21.72
Mercara	2	19.82	16.71	24.18	24.08	22.09	21.38
Vijayanagar	2		6.75	14.27	18.60	19.82	14.86
Shimoga	3	24.02	30.55	38.65	45.01	55.24	38.69
Bagalkot	2	5.36	4.78	10.88	13.19	22.78	11.40
Bellary	2	32.31	28.71	53.65	47.00	42.06	40.75
Bidar	2	17.18	18.29	26.34	35.01	33.85	26.13
Bijapur	2	8.69	8.36	10.51	12.95	14.66	11.03
Chitradurga	2	17.49	18.14	32.08	29.00	24.41	24.22
Davanagere	3	17.68	14.92	22.07	32.70	31.60	23.79
Gadag	2	12.64	19.84	22.35	20.64	20.76	19.25
Karwar	2	12.00	13.71	15.21	24.66	19.33	16.98
Raichur	2	29.06	23.30	50.43	47.47	25.29	35.11
Koppal	2				25.77	25.99	25.88
Total C							**402.07**
Showrooms located at Towns / Taluk Headquarters							
Tiptur	3	10.70	12.00	18.66	20.46	10.08	14.38
Gokak	2	10.05	9.84	14.79	5.63	13.28	10.72
Ranebennur	2	14.09	15.01	19.82	16.76	34.81	20.10
Total D							**45.20**

Table 8.2 : Average Sales Performance of Showrooms

Rs. in lakhs

Category	No. of Show-rooms	Total Sales during 2007-08 to 2011-12	Average sales per year per showroom
A	21	6,547.49	70.32
B	10	2,101.57	46.61
C	16	1,917.87	25.13
D	3	225.98	15.07
Exhibition & other Sales	**50**	**1,252.32**	-
Total Sales		**12,045.23**	

Chapter 9

ORGANIZATIONAL SET UP & HUMAN RESOURCES

9.1 Organizational Set up

The Corporation is governed by Board of Directors headed by Chairman. The Board comprises seven Directors nominated by the State Government and Managing Director who is also appointed by the State Government. The Board meets periodically for reviewing the progress and performance of the Corporation. Major Policy decisions are taken in the Board Meetings.

- **General Administration - Managing Director** is the administrative head of the Corporation who manages day-to-day functioning of the Corporation. To support the Managing Director, there are different functional heads viz., Planning & Development, Finance & Accounts, Technical, Marketing, etc..

- **Planning & Development Section** - is headed by Joint Director (P&D), which is a deputation post from the Department of Handlooms & Textiles and placed in Head Office at Hubli. To assist Joint Director (Planning & Development), there is one Manager (Planning & Development) supported by Deputy Manager (P&D), Project-cum-Quality Control Officer (PCQC), Assistant PCQC Officer and PCQC Inspector. Joint Director (Planning & Development) is responsible for planning the activities of the Corporation by chalking out Government related Schemes and Programmes, follow-up, monitoring and implementing the same.

- **Finance & Accounts Section** is controlled by Finance Controller and is assisted by Deputy Manager (Accounts), Audit Officer & Accounts Officer (Costing). Day-to-day accounts, audit and costing functions are managed by a group of personnel under the guidance of Finance

Controller. Finance Controller is mainly responsible for managing all the finance & accounts related matters pertaining to the Corporation.

- **Technical Functions** are handled by a group of technically qualified personnel. They are mainly responsible for planning & execution of production related activity. There is one Chief Manager for managing the production related activity of Vidya Vikasa Scheme. There is one Manager each for managing the production of cotton / polyester cloth, silk cloth, purchase related activity and for quality control. Technical Team is assisted by a group of Project Administrators at Project Sites. In the Project Site, Project Administrators are assisted by PCQC Officers, Assistant PCQC Officers and PCQC Inspectors.

- **Peenya Textile Process House** is headed by a Manager (Processing), who is entrusted with the responsibility of managing post-loom textile processing of cotton / polyester fabric and silk yarn dyeing. The Manager is assisted by a group of technically qualified personnel viz., dyeing master, mechanical engineer, electrical engineer, maintenance engineer, bleaching & finishing master, printer, etc..

- **Marketing Functions -** For handling marketing functions, two persons are designated at top level i.e., Chief Manager (Wholesales) and Manager (Retail Sales). As designation itself indicates, Chief Manager is responsible for wholesale sale and Manager is responsible for retail sales. The Chief Manager (Wholesale) is assisted by a group of personnel including Deputy Managers (Mktg.), Sales Managers, etc.. Similarly, Manager (Retail Sales) is assisted by Deputy Managers (Mktg.), Sales Managers, etc.. The responsibility includes managing the wholesales, retail sales and achieving the targeted performance.

- **Personnel & Administrative Function –** This function is handled by Chief Manager (Personnel & Administration) is responsible for all personnel and administrative related matters of the Corporation.

The main functions of this Department includes maintaining the records of all the employees of the Corporation, leave management, settling of retirement benefits, time management, maintaining discipline & decorum in the office, etc.. The Personnel & Admn. Section is assisted by Deputy Manager (P&A), Administrative Officer, etc..

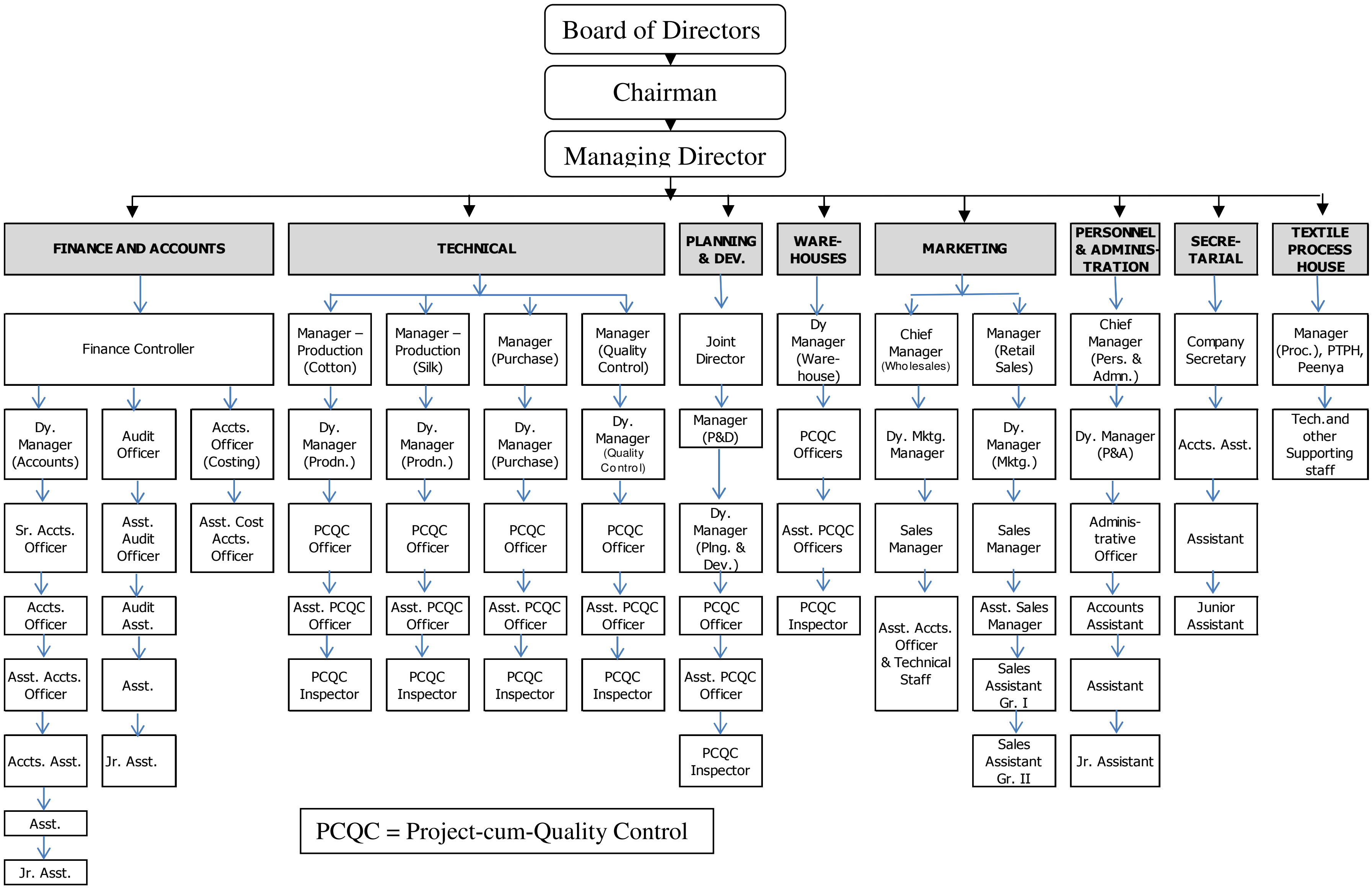
- **Secretarial Function –** Secretarial function is performed by a Company Secretary appointed for this purpose. Company Secretary is mainly responsible for looking after legal related matters in addition to conducting of Board Meetings at regular intervals, Annual General Body Meetings, etc..

The Organization Chart is enclosed as Table 9.1.

9.2 Human Resources

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.. It is reported that 285 persons are retiring in next four years period i.e., during 2014 (58 persons); 2015 (99 persons); 2016 (68 persons) and 2017 (60 persons). As per the retirement plan, about 40% will be retiring during next four years. Ramanath Committee constituted for studying human resource requirement of the Corporation has suggested abolition of certain posts and creation of certain new posts. The Committee has indicated that, out of cadre strength of 807 posts (as on the date of Study conducted), 242 posts have been identified as redundant and proposed for abolishing the same. The Committee has also suggested for creation of certain new posts and recruiting certain additional personnel for certain cadres. As per the suggestion, the Corporation has to appoint 101 persons for new posts and additional posts for certain existing cadres. The Corporation needs to consider the recommendation of the Committee suitably.

Table 9.1 : Organization Chart



Chapter 10

WEAVERS SPECIAL PACKAGE

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 are –

- Construction of Living-cum-Worksheds
- Mahatma Gandhi Bunkar Bhima Yojana
- Health Package Scheme
- Thrift Fund
- Scholarship to children of weavers

10.1 Construction of Living-cum-Worksheds

The Corporation is implementing Living-cum-Worksheds Scheme for the benefit of Weavers. Living-cum-Worksheds is provided through Centrally sponsored Scheme as well as State sponsored Scheme. The Centrally sponsored Scheme is implemented through Rajiv Gandhi Housing Corporation Limited and State sponsored Scheme is implemented through Department of Handlooms & Textiles.

Under Centrally sponsored Scheme, the cost of each living-cum-workshed in rural area is Rs. 35,000, of which, Rs. 18,000 grant, Rs. 14,000 loan and Rs. 3,000 weavers contribution. Whereas for urban area, the cost of construction is Rs. 45,000, of which, Rs. 20,000 grant, Rs. 20,000 loan and Rs. 5,000 weavers contribution.

Under State sponsored Scheme, the cost of each living-cum-workshed is Rs. 65,000/-, of which, Rs. 40,000 subsidy, Rs. 20,000 loan and Rs. 5,000 weavers contribution.

Under Centrally sponsored Scheme, 1,440 living-cum-worksheds have been sanctioned / constructed during five years study period at the rate of 288 living-cum-worksheds per year (198 rural + 90 urban).

Under State sponsored Scheme, 500 living-cum-worksheds have been sanctioned / constructed during five years study period at the rate of average 100 living-cum-worksheds per year.

10.2 Mahatma Gandhi Bunkar Bhima Yojana (MGBBY)

This is a Centrally sponsored Scheme providing insurance cover to the weavers. Under this Scheme, about 5,300 beneficiaries are receiving the benefits every year.

10.3 Health Package Scheme

This is again a Centrally sponsored Scheme implemented through ICICI Lombard General Insurance providing health insurance to the weavers. Under this Scheme, about 3,200 beneficiaries have received benefit during 2010-11 and 2011-12.

10.4 Thrift Fund

Thrift Fund is a social welfare measure offering retirement benefit to the weavers. Under this Scheme, equal contribution is made every month by both the Corporation and weavers. The fund collected is kept in a fixed deposit and offered as retirement benefit at the time of retirement. Under this Scheme, about 4,700 weavers have received benefit during 2010-11 and 2011-12.

10.5 Scholarship to Children of Weavers

The Corporation is giving scholarship to the children of weavers in order to encourage their education at the rate of Rs. 1,200 per child per year. The Corporation has given scholarship of Rs. 14.73 lakhs to 1,228 children during 2010-11 and Rs. 12.83 lakhs to 1,069 children during 2011-12. For details regarding Weavers Special Package, please see Table – 10.1.

Table 10.1 : Weavers Special Package

Sl. No.	Description	2007-08	2008-09	2009-10	2010-11	2011-12
1	**Construction of Living-cum-Worksheds**					
a)	Centrally sponsored	288 (198 rural + 90 urban)	288 (198 rural + 90 urban)	288 (198 rural + 90 urban)	288 (198 rural + 90 urban)	288 (198 rural + 90 urban)
b)	State sponsored	18	132	132	175	43
2	Mahatma Gandhi Bunkar Bhima Yojana	5513	5552	5353	5338	5224
3	Health Package Scheme	-	-	-	3151	3290
4	Thrift Fund	-	-	-	4663	4663
5	Scholarship to children of weavers	-	-	-	1228 (Rs.14.73 lakhs)	1069 (Rs. 12.83 lakhs)

Chapter 11

UTILIZATION OF FIXED ASSETS

The Corporation has got assets in many places of the State. Most of the assets are located in rural and semi-urban areas. These assets are being utilized as Production Centres managing the production activity of the artisans as well as Production Centres for catering to the raw-material requirements of the weavers and as procurement centres of finished products. Since these are located in rural and semi-urban areas, there is very less possibility of development of excess land available, if any.

The Corporation has identified excess area availability in three major locations in urban localities. They are –

1	Regional Office, Ulsoor	▪ Total sital area = 15,650 sq.ft. ▪ Built-up area (Ground floor) = 3,210 sq.ft. ▪ Built-up area (First floor) = 2,550 sq.ft.
2	Anekal	Total area available for development = 7000 sq.ft.
3	Peenya Textile Process House, Bangalore	Total area available for development = 33,000 sq.ft.

These locations have got potential for development as they are situated in prominent locations.

- **Property at Ulsoor –** The Regional Office is located in a very prominent area of Bangalore city. The location is in heart of Bangalore facing famous Ulsoor lake. The Regional Office building is old utilizing only 20% of the ground / plinth area. Total built-up area of the building is 5,760 sq.ft.

There is very good scope for developing this property commercially exploiting the locational advantage and prevailing floor area ratio allowed for construction of new building. The Corporation has to take appropriate decision for demolition of the existing property and construction of new attractive building using the services of the well known Architect. The building so constructed may be utilized by letting out ground floor for restaurant / hospitality business and rest of the building for commercial use. A portion of the building may be retained for Regional Office purpose.

- **Anekal Property -** As reported by the Corporation, this property is located in Surya City developed by Karnataka Housing Board. This property is in Anekal taluk, which is a part of Bangalore Rural District. The area is fast developing as a satellite city. The location is very close to Electronic City which is a hot hub of software development and is also close to two major industrial hubs – Bommasandra and Veerasandra Industrial area. Many multi-national companies and famous software development companies such as Infosys, Hewlett Packard, Wipro, Cognizant, IBM, etc. are located in close proximity of this property. There is good potential for developing available space commercially.

- **Peenya Textile Process House (PTPH), Bangalore –** Peenya is a part of BBMP area. Peenya Industrial Area is one of the Asia's biggest industrial areas. Many small & medium scale industries are located in this area and is in close proximity to NH-4. Close to PTPH Centre, there is one big export house built by Karnataka Industrial Areas Development Board and presently managed by Visvesvaraya Trade Promotion Centre (VTPC). VTPC has let out this building for commercial use and earning good revenue. There is good potential for the Corporation to unlock the vacant property for commercial use and earn revenue. There is potential for developing this property for utilizing it as office space, Software / Hardware Park, One or Two-Star Hotel, etc., depending on the space that is going to be unlocked.

The above properties can be developed on Public Private Partnership or 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 the appropriate decision.

Chapter 12

COMPARISON OF KHDC WITH CO-OPTEX

12.1 As a part of the Study, Officers from TECSOK visited Handloom Weavers' Co-operative Society (Co-Optex) and discussed with the Senior Officers about the activities and Schemes & Programmes of Co-optex and its modus-operandi. The Schemes and Programmes of Tamilnadu Government for textile related activities were also discussed. Based on the discussions, a comparative statement has been prepared highlighting various issues concerning to KHDC vis-à-vis Co-optex. The comparative Statement is given in Table 12.1 and is self-explanatory.

12.2 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.

12.3 The Co-optex is having 200 retail outlets (133 within Tamilnadu and 67 in other States outside Tamilnadu); whereas KHDC is having 50 showrooms (44 in Karnataka and 6 in other States outside Karnataka). 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.

12.4 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.

12.5 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.

Table 12.1 : COMPARISON OF KHDC VIS-À-VIS COOPTEX

Sl. No.	Details	KHDC		COOPTEX		Remarks
1	Status	Corporation under Public Sector Enterprise. Covering about 51,000 handlooms Working looms as on 31.3.2012 - 10536 (9317 cotton & 1219 silk looms)		Cooperative Apex Body in Tamil Nadu. Covering 1200 Primary Handloom Cooperative Societies and 77 Primary Powerloom Cooperative Societies Total working looms - 76,000 (includes both handlooms and powerlooms)		Status not comparable. Coverage of looms by Cooptex is large. Procurement & sale of both handloom and powerloom cloth by Cooptex, whereas KHDC deals in only handloom products
2	No. of outlets	50		200		Number of outlets of Cooptex is four times that of KHDC's
a)	In State	44		133		
b)	Outside State	6		67		
3	Employees	No. of Permanent Employees	773	Number of permanent employees	846	Permanent employee strength of KHDC is comparatively large for the turnover
		Turnover per employee	Rs. 17.75 lakhs	Number of temporary employees	about 450	
				Turnover per employee	Rs. 91 lakhs	
4	Production, Productivity & Production Cost (2011-12)					
a)	Production	PC suiting / PV shirting / navy blue casement = 74.82 lakh mtrs.		Comparison was not possible since Co-operative Societies of Tamil Nadu are not ready to share the information and also the type of fabric produced by these Societies are different and not comparable with KHDC		
b)	Productivity	4.12 mtrs. per loom per day considering deployment of 6000 looms				
c)	Production cost	Rs. 53 per meter				

Sl. No.	Details	KHDC	COOPTEX	Remarks
5	Turnover	Rs. 147 crores (2011-12) out of which, * Retail sales ....Rs. 30 Cr. * Wholesale sales ....Rs. 117 Cr. (mainly to Govt. Depts. / Organizations)	Rs. 1423 crores (2012-13) * Retail sales............................. Rs. 234 Cr. * Export sales........................... Rs. 2 Cr. * Yarn sales .... Rs. 300 Cr. * Govt. / Contract sales........... Rs. 878 Cr.	Turnover of Cooptex is very large and not comparable with KHDC's turnover
6	Profit and Profitability ratios	Gross / Net Loss during 2011-12 = (Rs. 2.59 crore) Employees cost ...... Rs. 30.84 Cr. Employees cost as % of sales 22.48% **Inventory** - 35% of sales (2010-11) - 39% of sales (2011-12) Gross profit / net profit as % of sales = Nil	Gross profit during 2012-13 = Rs. 86.27 Cr. Net profit during 2012-13 = Rs. 14.19 Cr. Employees cost = Rs. 39.35 Cr. Employees cost as % of sales = 2.77% Inventory = 45% of the sales Gross profit as percentage of sales = 6% Net profit as percentage of sales = 1%	KHDC is loss making Corporation and not comparable with Cooptex. Employees cost as percentage of sales is very high when compared to Cooptex
7	Interest rate	Commercial rate of interest applicable from time to time	Subsidized rate of interest @ 8 % per annum	Cooptex has advantage of lower interest rate
8	Recognisation	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	Nodal Agency of the Govt. of Tamil Nadu for implementing all the schemes and programmes related to textiles which includes free supply of uniforms, sarees, dhotis, etc. announced by Govt. of Tamilnadu from time to time	

Sl. No.	Details	KHDC	COOPTEX	Remarks
9	Operating pattern of free supply schemes	▪ Indents placed by the operating departments for supply on KHDC (Vidya Vikasa Scheme - Education Dept.), Saree Dhoti Scheme (Social Welfare Dept.), etc. ▪ Funds are released after supply of the products indented. ▪ No advances are provided for. ▪ KHDC has to incur cost of finance borrowed from bank for implementing the scheme at relatively high interest rate. ▪ Govt. orders are issued by the respective Depts. ▪ In comparison, KHDC does not appear to have the status as a Nodal Agency.	▪ Funds allocated for scheme parked in the PD account of the Directorate of Handloom & Textiles. ▪ PD account utilised for release of funds to Cooptex on a monthly basis for implementing the schemes ▪ Govt. Order issued with regard to PD account and process for procurement of yarn and incurring expenditure on handling & distribution. ▪ Relatively availability of funds for activities are easier and comfortable. ▪ Planned quantities, specifications, raw material requirements, are prepared in advance and stated in the GO, which is renewed / continued year-on-year. ▪ GO also stipulates procurement from handloom and powerloom cooperatives. It recognizes limitations of handloom and accordingly only about 10% of the requirements are allocated for handloom and remaining from powerloom cooperatives. All supplies of yarn to the cooperatives are routed through Cooptex (Nodal Agency) irrespective of whether from handlooms or powerlooms.	Cooptex is designated as Nodal Agency for supply of textile products required by different Departments of Tamilnadu. Fund flow from the State Government is smooth when compared to fund flow from GoK to KHDC
10	Living-cum-workshed schemes	▪ Loan is arranged to the Members of the Corporation through HDFC ▪ No Government guarantee is given on such loan raised ▪ Assets created against loan is not pledged with KHDC ▪ Repayment by the Members is irregular with the result, burden of repayment lies on KHDC in case of default	▪ Loan arranged to the Members of the Primary Cooperative Society through HDFC against Government Guarantee. The asset so created is pledged with cooptex. ▪ Repayment by the beneficiaries is fairly regular and Cooptex is able to collect and repay most of the outstanding to the borrowing agency	

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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Appendix 1

Format Seeking Information related to Evaluation Study of KHDC

1. Physical & Financial Performance of KHDC for 2007-08 to 2011-12 – please provide Annual Reports for 2007-08 to 2011-12.

2. **Looms coverage**

   (a) Total number of looms covered
   (b) Working looms
   (c) Idle looms
   (d) Looms working on cotton material
   (e) Looms working on silk material
   (f) Looms working on polyvasthra
   (g) Is any reduction / increase in looms coverage, if so, give status of coverage as on 2001-02 to 2011-12

3. **Number of weavers / persons working on looms and other supporting activities for KHDC**

Particulars	Male	Female	Total
Number of weavers working on cotton looms			
Number of weavers working on silk looms			
Number of weavers working on polyvasthra			
Number of persons working in other supporting activity			

4. **Vidya Vikasa Scheme –** provide a Brief Note on Vidya Vikasa Scheme along with the following:
   a) Allocation by the Education Department during last five years

Year	Looms allocated	Quantity produced (in lakh mtrs.)	Production Value (Rs. in lakhs)	Sales Value (Rs. in lakhs)
2007-08				
2008-09				
2009-10				
2010-11				
2011-12				

   b) Problems related to operation of Vidya Vikasa Scheme
   c) Expectation of KHDC for smooth operation of Vidya Vikasa Scheme

5. **Saree Dothi Scheme** - provide a Brief Note on Saree Dothi Scheme along with the following:

   a) Allocation by the during last five years

Year	No. of looms allocated	Quantity produced / supplied (in lakh Nos.)			Amount (Rs. in lakhs)		
						Sales Value	
		Dothi / Lungies	Sarees	Total	Produc-tion Value	Subsidy received by Govt.	Amount met by the beneficiary
2007-08							
2008-09							
2009-10							
2010-11							
2011-12							

   b) Problems related to operation of Saree Dothi Scheme
   c) Expectation of KHDC for smooth operation of Saree Dothi Scheme

6. **Existing product range**

A. In-house Production

Particulars	Looms allocation	Quantity produced/ annum	Production Value (Rs. lakhs)	Sales Value (Rs. lakhs)
General (other than Saree Dothi and Vidya Vikasa Scheme)				
I. Cotton / Polyester varieties				
a) Dress material				
b) Sarees				
c) Bedspreads / Bed sheets / Bed linen				
d) Towels and carpets				
e) Dothi / Lungi				
f) Hankies				
g) Home furnishings (curtains, sofa cloth, table linen, etc.)				
h) Readymade garments (shirts, pants, women wear, children wear, etc.)*				
II. Silk Varieties				
a) Dress material				
b) Sarees				
c) Home furnishings (curtains, sofa cloth, table linen, etc.)				
d) Readymade garments (shirts, women wear, children wear, etc.)*				

* Please give break-up of readymade garments produced. Please also indicate the product varieties which are fast moving and slow moving.

B. Products Outsourced

Give details of products outsourced in terms of quantity and value per annum.

Particulars	Quantity per annum	Value (Rs. lakhs)

7. **Manpower**
Give details of Department-wise manpower strength of KHDC location-wise / project-wise as per the following Table :

Particulars	Sanctioned Strength as per C&R Rules	Existing Strength	Vacancy Position	Requirement of Manpower based on Existing Workload

Note : Please indicate Cadre-wise number of persons on deputation to other Organizations. In your view, please indicate the posts which are redundant in the current context.

8. **Marketing**

(a) Please give year-wise sales by the Corporation as per the following :

Rs. in lakhs

Year	Vidya Vikasa	Saree Dothi	Retail Showroom Sales	Whole-sale Sales	Export	Others	Total Sales
2007-08							
2008-09							
2009-10							
2010-11							
2011-12							

Give list of showrooms and average sales per annum (showroom-wise) during last three years.

(b) Performance of Showrooms

Showroom	Average Turnover (Rs. lakhs)	No. of showroom staff	Staff & establishment costs per annum (Rs. lakhs)

Please indicate the non-performing showrooms

(c) Sales during rebate and non-rebate period

Particulars	No. of days	Sales (Rs. in Crores)				
		2007-08	2008-09	2009-10	2010-11	2011-12
Rebate period						
Non-rebate period						

Note : If there is any change in rebate duration for any particular year, please indicate the same

(d) Working Capital

Please give a Note on present working capital management by the Corporation indicating the problems / constraints faced in managing the working capital including interest rate and interest outflow per annum. Measures taken by the Corporation in overcoming the problems in working capital management.

(e) Weavers Special Package

Indicate the Weavers Special Package offered by the Corporation along with problems / difficulties faced in implementation of the developmental / welfare schemes.

(f) Fixed Assets

Give inventory of fixed assets (land and building) owned by the Corporation. Please identify the places where the Corporation considers that the assets are vacant / left unutilized, in excess of the requirement and can be rented / developed for maximizing the profit of the Corporation.

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