

A Study On Effects Of Demonetization On Textile Industry

Kalpitha m^{1*}, Kowsalya p²

Abstract:

Demonetization basically deals with the act of retirement of a currency unit of its status as a legal tender. Demonetization is importance when there is a change in the country's national currency where the old currency unit are retired and replaced by new currency unit. The term demonetization has become much more than a household name since the old ₹500 & ₹1000 notes were pulled out of circulation. The historic demonetization move by the government it seen as war on parallel economy, corruption, money laundering and to stop financing aid enjoyed by the terrorists. This paper conceptual analysis discussing the effects of demonetization on textile industry through the information available from the secondary sources. The paper tries to present few suggestive measures in order to face the effects of demonetization on textile industry sector. Demonetization is a step taken by the government in order has transparency among the business activities and also a step towards good governance.

Key Words: Demonetization, impact & effects, textile sector, suggestive measures.

CONCEPTS:

Demonetization is the act of changing the existing currency in another form. The old units should be retired and replaced by new currency. In other words demonetization means either introducing new notes or new coins of the same currency of fully replacing the old currency with new currency. There is a one important thing exist on economics, which is remonetisation, in which forms of payment is restored as legal tender. Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: the current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.

INTRODUCTION:

Demonetization refers to the transformation of the existing currency into a different form, where the old units are phased out and substituted with new currency. Essentially, demonetization involves the introduction of either new notes or coins of the same currency, effectively replacing the old currency with new. Demonetization, conversely, involves reinstating certain forms of payment as legal tender, a crucial aspect in economics.

MEANING:

Demonetization entails the removal of legal tender status from a currency unit. This process typically occurs during a national currency change, where the current money in circulation is withdrawn and

^{1*}Assistant Professor, Nagarjuna College of Management Studies, Affiliated to Bangalore North University, Chickaballpur. Email: kalpithavm@gmail.com

²Assistant professor, Akash Institute of Management and Science, Affiliated to Bangalore north university, Devanahalli. Email: pkowsalya99@gmail.com

retired, often being replaced by fresh notes or coins. Demonetization, on the other hand, signifies the restoration of a form of payment as legal tender.

Breaking down 'Demonetization' Various nations opt for demonetization of their local currency for several reasons:

- To combat inflation.
- To address issues of corruption and crime, such as tax evasion.
- To discourage reliance on a cash-driven economy.
- To streamline and facilitate trade.

The fabric and garment sector in India is predominantly decentralized, with eighty percent operating within the SME segment. This underscores the significant repercussions of demonetization on the nation's second-largest industry. Reports indicate a substantial halt in operations, with approximately 70-75% of power loom units ceasing production, highlighting the tangible effects of demonetization.

INTRODUCTION OF TEXTILE INDUSTRY

The textile industry revolves around the creation and distribution of yarn, fabric, clothing, and related products, utilizing both natural and synthetic raw materials sourced from the chemical industry. India has experienced significant social, political, and economic transformations since the implementation of reforms across various sectors. This has bolstered the country's confidence in competing with developed nations and has increasingly attracted global investors. As one of India's oldest industries, the textile sector has played a pivotal role in generating foreign exchange earnings and employment opportunities, serving as a cornerstone of the economy. With a substantial manufacturing base for raw materials and textiles, the Indian textile industry stands as one of the largest globally. Our economy heavily relies on textile manufacturing and trade, alongside other key industries. Textiles and clothing exports alone contribute approximately 27% to foreign exchange earnings, while the sector accounts for about 14% of industrial production and 3% of the country's gross domestic product. Moreover, around 8% of total excise revenue collection is attributed to the textile industry.

HISTORY OF TEXTILE INDUSTRY

The evolution of textiles is intricately intertwined with human civilization, with its history continually evolving over time. Dating back to the 6th and 7th centuries BC, the earliest evidence of fiber usage is found in the discovery of flax and wool fabric among Swiss lake dwellers. In India, silk culture emerged around 400 AD, while cotton spinning dates back to 3000 BC. Similarly, in China, sericulture and silk spinning methods were initiated around 2640 BC, while Egypt saw the development of linen spinning and weaving around 3400 BC.

The industrial revolution of the 18th and 19th centuries ushered in a new era for textiles, marked by the invention and widespread adoption of machinery for processing natural fibers. The introduction of synthetic fibers like nylon further expanded the market for textile products, stimulating innovation in both natural and synthetic fiber sources. Advancements in transportation and communication facilitated the exchange of textile skills and artistry across borders, enriching the global textile landscape.

PROBLEM FACED BY THE TEXTILE INDUSTRY IN INDIA

Challenges abound within the cotton textile industry in India, encompassing a range of issues:

- **Widespread Sickness:**

The cotton textile sector grapples with widespread sickness, ranking second only to the engineering industry in terms of incidence. Approximately 125 units have been taken over by the Central Government due to this issue.

- **Obsolescence of Machinery:**

Many units within the industry suffer from outdated plant and machinery, hindering efficiency and productivity. While schemes for modernization have been introduced, comprehensive technological upgrades remain imperative for sustainable growth. Accessing resources externally may be necessary for many companies to achieve this.

- **Regulatory Burdens:**

Government regulations, particularly those related to producing controlled cloth, pose challenges to industry interests. Excessive regulation over the mill sector in the past decades has exacerbated inefficiencies in production and management.

- **Low Cotton Yield and Fluctuating Output:**

India faces low cotton yield per hectare, leading to high costs and price volatility. Dependency on climatic factors results in wide fluctuations in raw cotton production, posing supply challenges for mills.

- **Competition from Synthetic Fibers:**

The cotton textile industry faces stiff competition from synthetic fibers, which are gradually replacing cotton textiles. This trend is supported by arguments that increasing cotton production would adversely affect food crop cultivation.

- **International Competition:**

India contends with fierce competition in the global market from countries like Taiwan, South Korea, China, and Japan. The industry's high production costs pose a significant disadvantage in international trade.

- **Labor Strife:**

Frequent labor disputes plague the cotton textile industry, leading to significant financial losses for both workers and the industry. Prolonged strikes, such as the one witnessed in Bombay, result in substantial economic repercussions at both national and industry levels.

- **Stockpile Accumulation:**

Periods of sluggish off-take result in the accumulation of excessive stock, necessitating price reductions and impacting profitability.

- **Miscellaneous Challenges:**

The industry grapples with various other issues, including power cuts, infrastructural deficiencies, limited access to finance, soaring raw material prices, and escalating production costs.

REVIEW OF LITERATURE

Narasimhan T.E (2016)

In his paper he studied on textile and leather industries hit by demonetization as companies failed to pay wages, and also studied Textile and leather, which are labor-intensive industries, are facing the heat of centre's decision the Rs 500 and Rs 1000 currencies. Companies are not able to pay wages to workers and not able to procure raw materials. While agreeing that the centre's move will streamline the system, it will increase the cost of doing business. Tripura Exporters Association (TEA) welcomed the government's move, but requested to allow withdrawal of higher amount, based on the average amount they have been regularly withdrawing from the banks for the past six months, which would help them to meet the payment of weekly wages and other sundry expenses without having any

difficulties. Of the around six lakh workers, 40-50 per cent are migrants. Many of these workers don't have bank accounts. These workers usually get paid an amount of around Rs 300-400 a day.

Patil (2016)

Due to demonetization the credit cost dropped quickly which led to increase in raising money for investment purpose. As Rs 500 and Rs1000 notes were declared invalid people were forced to deposit their currency in banks to get it changed with new currency notes. Thus they were able to raise loan to be used for investment in business.

Simpson and Shetty (2001)

Did a vast study on India's textile industry? The purpose of study is to analyze India's textile and apparel industry, its structural problems, market access barriers, and measurements taken by government of India to enhance the industry's competitiveness in the post multi fiber agreement (MFA) era. The study also assesses India's textile and apparel market potential and trade and investment opportunities for U.S firms as India steps into a more free and transport trade regime. For the purpose of study exploratory study is done in which in depth interviews are done with various government officials in textile export promotion council, ministry of textile, cotton council of India, apparel export promotion council (AEPC), federation of Karnataka chamber of commerce and Industry, handloom export promotion council, madras chamber of commerce and Industry, the south India textile and research association, and almost all top executives of India's large textile mills.

Sukanta Sarkar (2010)

He conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian Political System i.e. Indian govt. just focused on making committees rather than to implement it. The study concludes that laws should be implemented properly to control black money in our economy.

OBJECTIVES OF THE STUDY

- The main objective is to understand about the effects of demonetization on the textile manufacturing sector.
- To analyse the effects of demonetization on company production and export.
- To study & implicate the effect of demonetization on foreign exchange.
- To compare the post & pre-demonetization effect.

SCOPE OF THE STUDY:

The study based on the effects of demonetization on the textile industry India's textile export volume is good, all the export would not be affected but domestic textile market will be affected. The overall impact on the sector however is expected to be limited as one third of the Indian textile industry is estimated to be export.

STATEMENT OF THE PROBLEM:

The study is undertaken to analyze the effect and impact of demonetization on textile industry & to analyze the impact on export trade, & also to evaluate effect on foreign exchange due to demonetization with special reference to textile industry.

NEED FOR THE STUDY:

Demonetization is expected to have mixed effects on textiles; the purpose of the study is to review the overall effects of demonetization in terms of production of the company, sales and export, foreign exchange and others & analyzing the demonetization impact on textile manufacturing sector.

RESEARCH METHODOLOGY:

Research is an organized inquiry designed and carried out to provide its information to solve the problem. "Research is the process of systematically obtaining the accurate answer to significant and pertinent questions by the use of the scientific methods, gathering and interpreting the information.

This study is analytical in nature. For the purpose of this study both primary data and secondary data has been used.

TOOLS OF DATA COLLECTION:

It explains how the data is collected i.e. either from primary or secondary. It explains what method is used to collect the data what instruments are used for collecting data can be classified into primary and secondary.

TOOLS AND TECHNIQUES:

- The collected data has been tabulated, analyzed and interpretation is drawn and the same shown by way is graphs and diagrams.
- Analysis and interpretation of data has been presented with the help of percentage, tables and statistical tools such as Trend analysis.

LIMITATIONS OF THE STUDY:

- The current study based on the secondary data.
- Collection of data for analysis is limited. Because of company confidentiality.
- Statistical data which is used in project only from the last 4 years.
- The time duration for conducting the study is limited.
- Some of the details are not provided by the finance officials because of their confidentiality.

FINDINGS:

- The Revenue has been increased compared to base year and previous years, due to increase in sales the revenue of the company is increased.
- The GDP Growth rate of the company has been decreased compared to previous year, due to demonetization effects.
- The net worth of the company is increased compared to base year and previous year.
- The exports of textile & clothing. where, the base year didn't have any growth but, during increase in growth which also led to increased growth in the year. But, there was a fall in growth in the year.
- The above table shows the analysis on growth of foreign exchange currency GBP. Where, there was a small rise of growth in the year compared to base year and a high increase in the following years but, there was a decline in growth of GBP in the year because of Demonetization.

SUGGESTIONS:

- As the company have not disclosed the complete relevant information we can suggest to the company for maintain of transparency in its financial activities.
- The textile industry had a decline in the GDP growth rate due to the sudden decline in its production and so, it should increase its production by maintaining stock level for meeting the requirement of raw materials for continuous production increase.
- As the cotton production was declined due to the demonetisation effect, we can suggest for the company to maintain sufficient level of stock of raw cotton required for the future need for the production purpose.
- The company would have to maintain an additional foreign exchange reserves for the future contingency. Thus, the company should assess future uncertainty scenarios like demonetization to overcome the problems in the future.
- The company should concentrate on the domestic market instead of foreign market till the Indian rupee value is appreciated against the dollar during demonetization.
- Finally we can suggest for the company to become the global leader in textile industry in the upcoming years by adopting the new technologies in the manufacturing process.

CONCLUSION:

Demonetization in India is a great effort taken by Indian government to combat with black money and corruption. It is bold decision taken by the government. The main purpose of demonetization is eradicating the black money and reduces the corruption. Government of India has become success to some extent. No doubt the demonetizations have halted the purchase of new cotton in India, leading deflationary pressure, which in turn has reduced the cotton prices for the short duration. However, given the long-term benefits of the demonetization move, analysts are sure that the Indian textile industry will bounce back to normally very soon. Though demonetization has initial impact on the growth of the company but eventually there was an appreciation in Indian rupee against the dollar in the first half of the implementation of demonetization policy. Thus, I conclude that company should take measures to overcome the effects of demonetization.

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