

Gujarat MSMEs hit hard, output comes down to 50% of capacity

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Ahmedabad, Nov 29: With production having slowed down to about 50% for most micro, small and medium enterprises (MSMEs) since the demonetisation of ₹500 and ₹1,000 notes by the Centre, a spectre of unrest is beginning to haunt labour-intensive sectors such as the textile and chemicals units in Gujarat.

"There are two lakh registered MSME units in Gujarat, several of which form ancillary units for the textile industry such as for garments or even textile machinery units. These units have not shut down production completely, but they are running on 50% of their total capacity.

"Most of these industries pay their workforce and the transporters in cash. The salaries for October were paid off before the demonetisation announcement, but paying the salaries for November is going to be difficult; with the ₹50,000 limit on withdrawals from banks. If the situation does not improve by December 10 at least, there might be trouble by the labour force", said Kirit Patel, chairman, MSME & Industrial Policy Committee, Gujarat Chambers of Commerce and Industry (GCCCI).

According to Patel, the cash component in labour-intensive sectors amounts to almost 60% of a unit's turnover.

The textile sector, for which Gujarat forms a major hub, has been in shambles since the demonetisation announcement since most transactions are in cash, especially at the retail level. Ahmedabad alone is home to about 225 textile processing units, 70% of which have almost closed down since the announcement. Ahmedabad Textile Processors Association (ATPA) estimates the annual turnover of these units to be approximately ₹18,000 crore.

Ahmedabad Textile Processors Association (ATPA) president Nitin



Thaker said: "The textile trade is directly related to the consumers, and there are at least five stages the product passes through from the manufacturer till the retailer.

"Maximum purchasing happens through cash, whether it is from the manufacturer to the distributor, or even the reverse cycle. This entire chain has been disturbed because of lack of cash. About 70% of the processing units have almost closed down, while 30% are able to sustain their production due to export orders."

ATPA has made representations to the Centre regarding the current situation, but is yet to hear from the government. They fear that the slowdown will continue till at least March next year.

Things are a little better for units within the Vatva Gujarat Industrial Development Corporation (GIDC) estate since most of these units cater to export orders more than domestic sales.

Talking to *FE*, Ankit Patel, vice-president, Vatva Industries Association, said, "There are 1,800 units within the estate. Production has slowed down but not considerably. We estimate the estate's annual turnover to be approximately ₹15,000 crore, and of that, at least 50% is through exports only, and therefore unaffected by the

demonetisation. Only about 40% or lesser of our units are into local sales. The textile sector has been the worst affected as have the industries directly dependent on the textile sector such as chemicals and dyes."

Shailesh Patwari, vice-president, GCCCI, added that chemical units within the GIDC estates in the outskirts of Ahmedabad, were running at 60% of their total capacity. Speaking of the scenario for the textile sector, Patwari said, "Each textile processing house has at least about a 1,000 workers; many of whom have to be paid daily and in cash. Since these units are in no position to make payments due to the lack of liquidity, they are reducing production."

Chemical industries form a major ancillary industry for the textiles sector, with dyes contributing in a huge way to the value addition within the textile sector.

Talking to *FE*, Bhupendra Patel, chairman-Gujarat Region, Chemexcil, said, "The annual turnover for small-scale dye units in Gujarat is about ₹25,000 crore, of which ₹13,000 crore is generated from exports. Thanks to these exports, the units are still running. There is difficulty for units catering to domestic sales since the market situation post demonetisation is not clear.

There is no work at present for the local industries, and the three months of advance planning for procurement of raw materials and sales that industries normally engage in has completely stopped."

On a cautionary note, Kirit added, "Industrial units usually pay their labour as well as transportation charges through cash. Since the last two weeks, people have been hopeful of the situation improving with regard to the disbursement of cash by banks. Now, with December approaching, if things don't improve by December 8 to 10, there is a chance of a financial crisis as well as labour unrest."