



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

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TURNAROUND STRATEGIES: A CASE STUDY OF NTC

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ABSTRACT

The present case study is based on the turnaround strategy of NTC. It is observed that it was not a sound strategy to have limited modernization after the nationalization of the mills and instead of giving subsidy and loans for the wages; efforts should have been made to make the individual mills viable by allowing for the import of the latest technology machinery, going in for workload agreements with trade unions, rationalisation of workers and other employees as there was excessive manpower, should have gone for the value addition instead of continuing with the traditional product and as the power cost was also very high efforts should have been made to reduce the cost of power by having energy audit etc.

KEYWORDS

Turnaround, NTC, Strategy.

INTRODUCTION

In the early 1990s the era of liberalization set in displacing the era of protectionism in the industry. The organizations which were dependent on government subsidy have had to search alternatives for their survival.

N.T.C. was one such organization which depended hitherto on government support for their survival. It was producing mostly controlled cloth which was subsidized by the government for supplying to weaker sections of the society.

Due to change in the policy of the government the subsidy on the controlled cloth was stopped. As a result N.T.C. accumulated huge losses and the net worth of 8 out of 9 subsidiaries was totally eroded necessitating reference to Board for Industrial and Financial Reconstruction (BIFR) under the Sick Industrial Companies (Special Provisions) Act in the year 1993-94.

[SICA 1985: Enactment of Sick Industrial Companies (Special Provisions) Act, 1985 has been a measure aimed at dealing with sick industrial companies with coordinated approach. A sick industrial company is defined as one, which has been in existence for at least five years, and which has accumulated losses in financial year equal to more than its net worth. (Net worth is Equity Free reserves-Accumulated loss) It is obligatory for the Board of Directors of sick company to report its sickness to Board for Industrial & Financial Reconstruction. In Dec. 1992 Government of India has amended the SICA, so as to bring public enterprises also under its purview.

BIFR: Board for Industrial & Financial Reconstruction is empowered to initiate necessary enquiries to determine whether the company is sick or not if BIFR comes to the conclusion that the company is sick, it can give reasonable time to make the company's net worth positive. It may devise suitable measures for the purpose. Operating agencies amongst the Financial Institutions and Banks may be appointed by the BIFR to formulate revival/rehabilitation packages]

BACKGROUND OF N.T.C.

In the early 1970s most of the old textile mills became sick and needed government intervention. The government bowed to political pressures and nationalized most of the sick textile mills, thus giving birth to National Textile Corporation (NTC). The National Textile Corporation Limited is a Central Public Sector Undertaking under the Ministry Of Textiles. N. T. C. inherited all sick mills by virtue of nationalization of private mills N.T. C. started with 16 mills the number rose to 103 by 1972-73, ultimately to 119 in 1995.

Year	1968	1974	1995
Number of mills	16	103	119

Source: Annual Report of NTC to Ministry of Textiles. Year 1969, 1975, 1996

ORGANIZATION

The N.T.C. managed all these mills through 9 subsidiaries

1. N.T.C. (Delhi Punjab & Rajasthan)	8
2. N.T.C. (Madhya Pradesh)	7
3. N.T.C. (Uttar Pradesh)	11
4. N.T.C. (South Maharashtra)	17
5. N.T.C. (Maharashtra North)	18
6. N.T.C. (Gujarat)	11
7. N.T.C. (Andhra Pradesh, Karnataka, Kerala & Mahe)	17
8. N.T.C. (Tamil Nadu & Pondicherry)	15
9 N.T.C. (West Bengal, Assam, Bihar, & Orissa)	<u>16</u>

Source: Annual Report 2001-02 Ministry of Textiles

These mills were having 34, 29,664 spindles [Spindle is the unit on which the yarn is manufactured and the capacity of the spinning mills is measured by the number of spindles it is having] in 119 mills averaging about 29000 spindles whereas the minimum economic unit should have 25000 spindles. Thus they were barely touching the minimum economic capacity limit. + The machinery in these mills was very old mostly dating back to pre- independence era giving very low machine productivity and poor quality.

Similarly on the weaving side the average number of looms although was 350 yet they were narrow width plain looms some dating back to even 1930s. These were capable of producing only short width cotton cloth.

LIMITED MODERNIZATION

The N.T.C. took up modernization of its mills during 1977 to 1981. In some of the mills up to 80% of the machineries were modernized. While in rest the modernization was done in piece meal i.e. critical operating parts were replaced with latest part, retaining the structure of the old machine.

CHALLENGES FROM THE CHANGING ENVIRONMENT

The emergence of power loom sector (small scale weaving units manufacturing mainly cotton cloth) put a challenge to the organized mills sector (including N.T.C.). These power loom units were working on a very low wage cost and overheads thereby having cost advantage. Of the total cloth production in the country 96% comes from decentralized sector

Power loom	59%
Hand loom	19%
Hosiery	17%
Khadi	1%

Source : From using NSSO, Unorganized manufacturing sector, 62 round , 2005-06, July-June and estimates of factory sector for year 2005-06 using results from 2000-01

N.T.C. survived all these years mainly on government protection. As per directive of the government the N.T.C. produced controlled cloth for the government which was supplied by the government to weaker sections of the society.

The emergence of reliance as key player in the early 1980, accompanied by a reduction in import duties on the petrochemicals that constituted the raw material for the polyester, presented a strong threat to cotton textiles. Soon the cheaper and more durable synthetic garments found an appeal in the mass markets. Cotton increasingly got sidelined as an expensive option.

WHAT CAUSES A COMPANY TO GO INTO DECLINE?

- Mal adaptation
- High Operating Cost
- High Wages Cost
- Insufficient Resources
- Excessive debt burden
- Highly successful Competitor

MAL-ADAPTATIONS

- NTC did not upgrade its technology on a regular basis resulting in huge mismatch between the working environment and global scenario. Initially the Government of India did not allow the import of machinery with latest technology on the pretext that the new technology will displace the workers and they will become jobless.
- The Special Economic Zones (SEZs) were set up where in the entrepreneurs were allowed to set up 100% export oriented units (EOUs). These units could import latest available technology, so that the quality of their product is of international standard.
- Then in early 1990s the textile mills were allowed to install latest machinery with state of art technology and the license system was abolished. Different classes of mills emerged with different level of technology.

HIGH OPERATING COST

Due to poor technological level of machines and the rising cost of power (per unit of output) and low labour productivity the operating cost as a percentage of turnovers has increased.

ITEMS	% of Turnover	
	Actual	Standard
Raw material	54.00	45-50
Manufacturing Expenses	13.48	6-10
Power	19.49	11-14
TOTAL	86.97	65-70%

Source: Company Records

HIGH WAGES COST

There was excess manpower in N.T.C. as the workers did not accept the higher workload along with the rationalization in number of mills whereas their wages/allowances were upgraded. Since the wage structure in textile sector is based on region cum industry pattern, the workers who worked in mills located at Mumbai, Ahmadabad and Kanpur etc. were getting higher wages as compared to their counterpart in mills located at small places like Aurangabad, Nanded, Navsari, Naini, Maunath Bhanjan etc.

- Salary and wages cost of the NTC is about 81.24 % of Turnover as against standard of 8-12%.

INSUFFICIENT RESOURCES

Due to continuous losses the resources dried up resulting in net worth of the company becoming not negative.

• Authorized Capital	Rs.600 Cr.
• Paid up Capital	Rs.540 Cr.
• Net Worth	Rs.-8,327.08Cr.

Source: Company Records

EXCESSIVE DEBT BURDEN

The losses of N.T.C. increased continuously as a result the government provided loan to N.T.C. to meet not only the working capital but wage support.

- Loans from Govt. Of India
 Rs. 4,419.90 Cr. |
- Interest on above loan
 Rs. 2,293.34 Cr. |

Source: Company Records

HIGHLY SUCCESSFUL COMPETITOR

There was stiff competition from private sector in every type of end products the NTC was manufacturing.

- In the high end there are number of Competitors like Bombay Dyeing, Gwalior Suitings, Siyaram, Mayur Suitings, Vardhman Group etc.
- In the lower end number of power loom units started producing not only coarse cloth, sheeting, large width cloth, but suiting and shirting also.

The BIFR examined the reference of NTC to it. The companies were declared sick and IFCI/IDBI were appointed as operating agencies for different subsidiaries. Efforts were started to device the revival scheme to turnaround the situation.

The Three (3) Stages of a Turnaround Situation generally are

- Crisis
- Stabilization
- Rebuilding

CRISIS

- The manager's first task is to ensure the survival of the business.

- This primarily means arresting the cash outflow "stopping the bleeding".
- All those Mills which were unable to contribute towards wages and salaries after covering the variable cost and administrative expenses were stopped.

STABILIZATION

- Creating some "breathing" room

Since there was no working capital, the mills were allowed to work on job contract basis with the principle that supply of raw material and sale of finished product being the responsibility of job contractor, the NTC received job charges for converting raw material into finished product.

REBUILDING

- The Management of NTC looked for the turnaround plan to grow the business.
- The Management tried to instill some entrepreneurial qualities back into the organization.

The techno economic viability study was conducted for each individual mill.

As a result only 53 out of total 119 mills from different subsidiaries were found viable. The balance 66 mills were found to be unviable.

No. of Viable & Unviable Mills as per (TEVS) Techno economic viability study.

No.	Name	Viable	Unviable	Total
1.	Holding Company	3	2	5
2.	NTC(DP&R)	5	3	8
3.	NTC(MP)	2	5	7
4.	NTC(UP)	2	9	11
5.	NTC(SM)	8	9	17
6.	NTC(MN)	9	11	18
7.	NTC(GUJARAT)	2	9	11
8.	NTC (APKKM)	10	6	16
9.	NTC (TN&P)	6	4	10
10.	NTC (WBAB&O)	6	10	16
Total		53	66	119

Source: Annual Report of Ministry of Textiles 2007 - 08

PRINCIPLES OF REVIVAL SCHEME

1. All Banks/ FIs dues to be liquidated through issue of Tax free Bonds under one time settlement (OTS)
2. VRS to be paid to
 - (i) All workers of non- viable mills
 - (ii) Surplus workers of viable mills
3. All statutory dues (like Provident Fund, ESI, etc.) to be cleared with interest but without damages.
4. All unsecured creditors to be paid.
5. Total land of unviable mills and surplus land of viable mills to be sold.
6. Old obsolete/surplus machinery to be sold wherever possible.
7. Modernization/Renovation of viable mills.
8. Wage freeze for 5 years.
9. Net worth to be made positive in 10 years.

EXPENDITURE

S.No.	ITEMS	AMOUNT (Rs. in Cr.)	
		1st phase	2 nd phase
1.	Modernization	1465.78	318.83
2.	VRS/MVRS	1663.35	141.94
3.	Statutory Dues (Including Interest.)	210.42	--
4.	Pressing Creditors	307.05	--
5.	OTS	290.89	--
6.	Working Capital		117.61
7.	Wage Support (during implementation)		148.00
Total		3937.49	726.38

Source: Annual Report of Ministry of Textiles 2007 - 08

RESOURCES

S.No.	ITEMS	AMOUNT (Rs. in Cr.)
1.	Sale of Land / other Assets	3829.92
2.	Wages Support for previous 2 years (Loan from Govt.)	687.22
Total		4517.14

Source: Annual Report of Ministry of Textiles 2007 - 08

WHAT ARE THE GENERIC STRATEGIES A FIRM CAN USE TO STOP THE DECLINE AND TURN THE ORGANIZATION AROUND?**GENERIC TURNAROUND STRATEGIES**

- Change of management
- Rationalize Operations
- Revenue Push
- Cost Cutting
- Competitive Repositioning
- Selective Product / Market Pruning
- Major Retrenchment

CHANGE OF MANAGEMENT

Mr.K Ramahandra Pillai was appointed as Chairman & Managing Director of National Textile Corporation ending a long stint of deputing of I.A.S. officers from the Ministry of Textiles as C.M.D. for an average duration ranging from 2 to 3 years.

RATIONALIZE OPERATIONS

The operations were rationalized closing down the uneconomic mills/departments/activities. Out of 119 mills 22 were identified for modernisation by NTC.

119 MILLS in TROUBLE WATER

Viable Mills	Non Viable Mills	
53	66	
-1	-1	2 mills were transferred to Govt. of Pondicherry.
52	65	are to be closed

To be modernized

22 18 12 out of 52 mills further closed as most
By NTC by JV of the workers have opted for MVRS

Source: Annual Report of Ministry of Textiles 2007 - 08

REVENUE PUSH - FINANCING STRATEGY

- Asset based financing: The source of financing will be mainly by sale of assets of unviable mills and surplus assets of viable mills.
- Since the sale of machinery would have taken time and would not have been possible unless the employees/workers are separated from mills which again required funds for the payments under VRS. In order to bridge the gap in funds mismatch N.T.C. issued bonds (guaranteed by the Government of India).

COST REDUCTION STRATEGY

- Focus on cost reduction/process improvements measures
- As the wage cost was substantially very high, surplus manpower were offered MVRS, as a result the wage cost has come down from 46 % in year 2003-04 to 26% of total expenditure in year 2008-09*

*Source NTC reports

COMPETITIVE REPOSITIONING STRATEGY

While preparing Techno Economic Scheme for the individual mills the NTC has taken care that the mills take advantage of

- The local/adjoining markets as the products were known to customers
- At the same time establishing institutional markets like Indian Railways, ITDC Hotels etc. since it is easier for the institutions to purchase from organization like NTC (a PSU) than from private sector.
- Exploring Export market-- NTC was already exporting its products although in a small quantity from mills located in southern region.

SELECTIVE PRODUCT

While selecting the products for different mills it was taken care that no two mills produce the same product and supply in the same market in competition of each other.

MAJOR RETRENCHMENT

Since 77 mills were to be closed as a result all the employees working in these mills and surplus employees of the remaining viable mills are to be separated. A major retrenchment policy was drawn.

VRS: Voluntary Retirement Scheme was offered to employees with following benefits:

1. The employees were given extra payment @ 45 days per completed year of service as ex gratia.

This is apart from their normal gratuity and balance of P.F. accumulation in the accounts of the employees.

MVRS: The scheme of VRS was further modified known as Modified Voluntary Retirement Scheme and benefit for the remaining period was also taken into consideration.

1. The employees were entitled to extra payment @

(i) 35 days per completed year of service and

(ii) 25 days per year of remaining service as ex - gratia payment.

This ex - gratia payment was in addition to normal gratuity and provident fund benefits to which the employee is entitled.

IMPLEMENTATION OF THE REVIVAL SCHEME

The revival scheme is being implemented by the NTC and improvements are observed in the operations.

1. The number of working mills was brought down from 119 to 24, a reduction of about 80%.
2. The turnover of the NTC increased by 6.47%. Which is quiet substantial considering the situation as stated above at S.No. 1
3. Production value has increased by 37%. This is again very steep rise considering that number of mills has drastically reduced.
4. Cash loss has reduced by 70%.

In fact NTC has a cash surplus of 118.09 Crores in 2008-09.

5. Maximum capacity utilization has also increased by 6% from 76 to 82%.

6. Number of employees has reduced by 84.66% as a result of introduction of voluntary retirement scheme.

7. Some of the assets were sold and cash accruals from this were Rs. 4034.09 crores as against an estimate of Rs.3829.92 Crores from sale of all surplus assets.

The NTC is thus turning around.

S.No.	Particulars	Before Modernization in 2001-02	After Modernization In 2007-08	%age change
1.	Organizational structure	Holding company +9 subsidiaries	All 9 subsidiaries merged with Holding company	
2.	No. of working mills	119	24	
3.	Turnover	454.49	483.92	+ 6.47%
4.	Production Value	474.00	652.95	+ 37%
5.	Cash loss	(403.44)	(116.89)	- 70%
6.	Max. capacity utilization	75.99%	82%	+ 6 %
7.	Working capital	Not available	Sufficient	
8.	No. of employees	78946	12490	-84.66%
9.	Employees opted MVRS	Nil	59252	
10.	MVRS amount paid	Nil	2132.22	
11.	Sale of assets	Nil	4034.09	
12.	Wage support	385.00	62.50	- 83.77%

Source: Annual Report of Ministry of Textiles 2002 - 03, 2008 - 09 & Company Records

RECOMMENDATIONS

Although the NTC has pruned its structure, retained under its direct control, and modernized only those 22 mills which are potentially viable requiring less investment.

As a second line of defence it is forming joint venture with some of the leading players of the textile industry like Pantaloon, Abhishek Industries etc. to run 18 mills.

NTC is having 100 plus showrooms spread across the country located at prime locations. NTC must strengthen its marketing structure by forming joint venture with leaders of the retail marketing thus taking advantage of their professional expertise.

The present era is of value addition NTC must also look forward in entering a new field of readymade garments by having some tie up with established organization from the field.

These steps will not only diversify the range of products of NTC but by forward integration it will also be a value addition for its products.

CONCLUSION

Thus it is observed that it was not a sound strategy to have limited modernization after the nationalization of the mills and instead of giving subsidy and loans for the wages, efforts should have been made to make the individual mills viable by

- (a) Allowing for the import of the latest technology machinery.
- (b) Going in for workload agreements with trade unions.
- (c) Rationalisation of workers and other employees as there was excessive manpower.
- (d) Should have gone for the value addition instead of continuing with the traditional product.
- (e) As the power cost was also very high efforts should have been made to reduce the cost of power by having energy audit etc.

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Hoping an appropriate consideration.

With sincere regards

Thanking you profoundly

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Co-ordinator