CEC Working Paper

# Transformations and Labour in the Indian Garment Industry

*A Study on Wages and Structural Changes in garment Industry in Delhi and NCR Region*

G. Manicandan, Pallavi Mansingh and Priyanka Kumar

2006

**Centre for Education and Communication (CEC)**
173-A, Khirki Village, Malviya Nagar, New Delhi – 110017
Ph: +91 11 2954 1858/ 1841/ 3084/ 2473
Fax: +91 11 2954 5442/ 2464
Email: cec@cec-india.org; Web: www.cec-india.org

March 2006

*Published by*
Centre for Education and Communication
173-A, Khirki Village, Malviya Nagar, New Delhi – 110017
Ph: +91 11 2954 1858/ 1841/ 3084/ 2473
Fax: +91 11 2954 5442/ 2464
Email: cec@cec-india.org; Web: www.cec-india.org

# Contents

## Introduction - India as Part of Global Garment Value Chain

With the end of Multi Fiber Agreement in 31, December 2004, the Textile and Clothing Industry is undergoing progressive transformation world over. It has been argued that the MFA trade regime was a hurdle in optimal use of supply chain and has contributed to a more fragmented pattern of sourcing. The phase-out of the quota regime has resulted in revolutionary changes in the production network and policy regime in the international and national levels towards consolidation to achieve the optimal use of supply chain. These initiatives have been undertaken by the producers in developing countries, particularly in India to stay competitive in international markets.

The competitive pressures on a garment-producing firm are based on the market segment to which the firm serves. Market segment in Garments can be broadly divided into specialised fashion market segment and standardized mass-market product segment. Fashion market segment is quiet sensitive to lead-time while the mass-market segment is primarily based on the cost of production. These differences are increasingly blurring in the backdrop of soaring competitive pressures resulting from liberalization. It has become indispensable to reduce the cost of production in both these segments. Developments and innovations in communication technology enabled standardization even in production processes of customized goods to achieve low cost of production.[1] Thus the consolidation of production process and achieving economy of scale has become vital to stay competitive at international level.

In this study we do not discuss organization of production networks and the history of trade policies. Instead the focus is on the impact of MFA quota phase out on India and particularly on workers. We try to capture the various trends that are emerging in the Indian textile and clothing industry and in the world of labour. More specifically we intend to provide the facts of hard realities being faced by the workers in these production units in the year 2005 and in early 2006. To understand the changes in India it is prerequisite to have brief background of Indian textile and clothing industry.

### Objectives:

The exercise of mapping the first tier suppliers in garment industry in Delhi is undertaken with the following purposes:

1) To identify the major brands or Companies who source their products from India.
2) To understand the structural changes carried out by First tier suppliers to face the post-quota regime.
3) To identify the working conditions in first tier suppliers: a) work timings, b) social security benefits, c) nature of employment (Contract or permanent), d) nature of employment relations, e) facilities available to the workers in the factory, e) incentives given to the workers, and f) condition of women workers.

---

[1] Nordas ILO

The report is organized on the basis of information on individual companies. Information on each company includes aspects such as 1) Company and location, 2) Products, 3) Brands, 4) Production facilities, 6) Financial Performance, 5) Working conditions.

## Methodology:

The present survey covers 10 first tier suppliers in Delhi who supply to big companies like GAP, Wal-Mart, JC Penny, Haggars and so on. The companies are identified on the basis of information from resource persons. They consist of professionals in garment industry, and social activists working among garment workers.

Primary survey was done using interview method. The researcher interviewed a cross section of people: workers, officers and managers of the identified units. Information on individual companies was also collected from their respective websites. Besides indepth interviews a survey was conducted among 159 workers. Following

## Limitations:

1. Identifying the top ten companies, as the information on performance of the companies is not available in the public domain. It is also not possible to get the information from the particular companies by directly informing the purpose for which the information will be used.

2. Short time given for the survey is also one of major constrains as the researcher could interview the worker for only 30 minutes in a day, which is the lunch time for the worker. On the other hand the management of the company is not willing to allow the researcher inside the factory. Thus researcher was restricted to interview the worker during his/her lunchtime. As most of the workers are less educated, they are not aware of the brands for which they are producing.

# Chapter 1: Mapping First Tier Suppliers in Garment Industry in Delhi

## Key Features of the industry

The clothing industry in developing countries is labour intensive, low wage industry and it offers entry-level jobs for unskilled labour. It is a key sector for job creation. It is in the process of restructuring and consolidation to face the competition in the Post quota regime since 2005 January. The process of restructuring has been initiated since late 1990s. Clothing industry generally caters to market segments like both standardized product segment and high quality fashion segment.

The high quality fashion segment involves a system of production with high degree of flexibility. The production system encompasses modern technology and skilled workforce who are relatively well paid. Mostly this kind of production takes place in developed countries.

Standardized product segment follows the mass production system. It encompasses the production of standard products such as t-shirts, uniforms, white underwear and so on. Developing countries, particularly India, mostly involved in catering to this segment. It employs by and large semi – skilled and unskilled workforce. Home-based production is quite common in this sector.

With the advent of post-quota regime since 2005 there have been a movement towards adaptation of relatively modern technology and capacity building in clothing industry in developing countries in general and particularly in India. According to a report the Indian textile companies, particularly some of the big players in the industry have lined up investments of over Rs. 4,500 crore for capacity expansion or product diversification. It is estimated that Indian companies need to invest about Rs 32,400 crore in improving technology in the next 2-3 years to become more competitive.[2] Similarly it is important to note that India's export to US jumped by 27% in value terms while to the other key export destination European Union went up by 18%. Thus the textile and apparel industry overall export income during the year registered a growth of 22 % to reach 17 billion dollar against 14 billion dollar in the last year. This happened despite price deflation in the western market and the suppliers were forced to curtail prices by three to five percent.[3] The industry is also taking commanding initiatives towards producing high value added products. It is evident in the analysis of first tier garment supplier in NCR region.

Most large Companies have begun to announce capacity expansion plans. Earlier, Textile and Clothing buyers originally sourced from a number of Countries and Companies because of quota limitations. However, in the post quota regime garment manufacturers in India believe that 'large buyers will increasingly consolidate their sourcing to eliminate

---

[2] Big textile cos pledge investments of Rs 4,500 cr, The Economic Times Online, 14/05/2006, Source: http://economictimes.indiatimes.com/articleshow/1519235.cms - accessed on 22nd May 2006

[3] ibid..

inefficiencies in the supply chain.' With this view garment manufacturers in India taking initiative to diversify the product portfolio through enhancing manufacturing capability by modernizing and expanding existing facilities, grooming dedicated third party factories, acquiring existing facilities in India and abroad, and setting up new factories, including new location both in India and Abroad.

The manufacturers have taken these initiatives in order to achieve three objectives. Firstly, enhancing the production efficiency through modernizing equipments and achieving higher labour productivity. Secondly, strengthening sourcing capabilities by identifying new and efficient suppliers to reduce costs, increase speed of delivery and reduce lead times and identifying the raw material manufacturers geographically closer to the place of production. Finally, reducing the operational costs by achieving above said objective.

In this context, it is significant to note that since 1975 more intense global competition led to the decline in terms of trade in manufactures of developing countries[4]. It led to downward trend in the prices of manufactured goods of developing countries and consequent impact on the wages and employment conditions of workers. The rapid export growth of these types of manufactures by the large Chinese economy and by a number of other developing countries has intensified competition in the markets for these goods, there by exerting downward pressure on their prices.

According to UNCTAD secretariat estimates prices of apparel exported from DCs to the world market fell by more than 7% between 1996/97 and 2002/2003. This trend is also confirmed by data from the US department of commerce, which show a decline in the unit value of US apparel imports from developing countries of more than 10 % between 1995 and 2004.[5]

UNCTAD's Trade and development report-2005 argues that different labour market conditions and the existence of abundant unorganized low skilled labour in developing countries leads to productivity gains which are to a large extent reflected in lower prices. It is this phenomenon leads to the downward pressures on prices resulting from a simultaneous export drive by DCs in standardized labour intensive products.

## Structure of the industry

It is apparent in the preliminary analysis that the industry is undergoing rapid structural changes. These changes are carried out to build capability of the industry to face the competitive international market in the post –quota regime. The analysis of the balance sheet of the company makes it obvious that the companies under survey have experienced a significant growth in the year 2002 and 2003.

[4] UNCTAD, New Features of Global Interdependence, Trade and development Report, 2005, United Nations Publications, NY, Geneva, 2005 p 87-88

[5] ibid…

- Noted growth is visible in these companies as all the companies surveyed experienced a significant progress in profit after tax.
- These companies have created substantial additions of fixed assets during 2003-2004. It includes land, buildings, plant and machineries, furniture and fixtures, equipments and vehicles.
- There is significant improvement in the earnings of foreign exchange during the year 2003-04.
- Created subsidiaries in India and developed countries like United States and Germany. It is significant to note that these subsidiaries are fully or partially owned by these companies and carry out tasks like packaging, designing, knitting which complement the parent company.
- They secured significant amount of loans in this period.
- Expenses made by the companies in the fronts of manufacturing, administration, selling and distribution explicitly show the expansion of production activities in these companies.
- Another palpable evidence of increased capacity of these companies is, the significant growth in inventory assets in the year 2003-2004. Inventory assets include Raw materials, Work in Progress, stores, finished goods and goods in transit.
- The cost of material consumed and sold also indicates the growth in capability of theses companies.
- Sales in the year 2003-2004 are another major indicator of growth.
- Companies under study have not announced dividends for the year 2003-2004 with a view to enhance the production facilities.

# Chapter 2: Case Studies

## Case 1: Orient Craft Ltd.

### Company and its production facility

Orient Crafts (Public) Ltd was established in 1976. It is one of the major garment manufacturers and exporters in India. At present, Orient has 23 production units spread across Gurgaon, Noida and Okhla in Delhi.[6] It employs over 23,000 people.[7] The expansion plan envisages setting up of two new facilities at Manesar and Khandsa. In 2003-2004 the company has set up a wholly owned a subsidiary in New York in the USA to widen its market for home furnishing. It supplies to a home furnishing company Bed Bath & Beyond. The company has set up a joint venture with Freshtex of Germany, which it feels would help in achieving higher value addition in the garments.

### Brands

The company supplies for the leading fashion labels including Tommy Hilfiger Group, Gap Group, Ann Taylor Inc, May Departmental Store, Dillards Inc, William Sonoma, Banana Republic, Polo, Ralph Lauren, The Limited Stores, Lees, Levi's, Polo, Polyester, Reebok, Dockers, Calvin Klein, DKNY and Ralph Lauren, Nike and Hunt, Wal-Mart and Susan Bristol, Marks & Spencer Group Plc.

### Study of Financial positions:[8]

The company earned cash profit of over Rs 33.63 Crores in the year 2003-2004 compared to Rs 38.15 crores in the previous year. During the year the company have made substantial additions to the fixed assets comprising of land, buildings, machineries and equipments to the tune of Rs. 23 crores, which in turn would increase the production capacities. This would help the company to play in volumes and fetch better realizations as compared to cost of its products.

**Table : Fixed Assets of Orient Craft Ltd. Stated in Annual Report 2003-2004**

| | **Fixed Assets** | **Net Block** | | |
|---|---|---|---|---|
| | **Particulars of Assets** | **As at 31/03/2004** | **As at 31/03/2003** | % Increase |
| 1 | Land | 176967929 | 134326047 | 24.09582 |
| 2 | Building account | 197004668 | 203826921 | -3.462991 |
| 3 | Capital Expenditure not represented by assets | 8672656 | 3335579 | 61.53913 |

6 Source: http://economictimes.indiatimes.com/articleshow/1519235.cms - accessed on 22nd May 2006.
7 http://www.thehindubusinessline.com/2006/05/08/stories/2006050802770200.htm
8 The source for all the information on financial positions of Orient Craft Ltd is its Annual Report 2003-2004.

| | | | | |
|---|---|---|---|---|
| 4 | Plant and Machinery | 565474183 | 537360461 | 4.971707 |
| 5 | Furniture and fixture | 27714212 | 25380444 | 8.420835 |
| 6 | Vehicles | 77190725 | 78271486 | -1.400118 |
| | **Total** | **1053024373** | **982500938** | 6.697227 |

During the year 2003-2004 against the projection of Rs 450 Crores, company has been able to achieve the sales of Rs 490 Crores. It amounts to 14.8% increase in the overall sales of the company. At the same time as the table shows it is important to note that during this year the company has increased its local sales to the tune of around 86% while maintaining 13% increase in export Sales. In this context it is significant to note that OCL is also "seriously contemplating" entering the domestic market. The company is planning to enter the domestic market in collaboration with foreign brands in 2006.

Table : Export Sales achieved by Orient Craft Ltd.

| | **Amount in Rs.** | | |
|---|---|---|---|
| **Sales** | **As at 31/03/2004** | **As at 31/03/2003** | Increase in % |
| Export Sales | 4765754910 | 4154057891 | 12.83526 |
| Local Sales | 138758688 | 19543665 | 85.91536 |
| Premium sale of Quota | 1010617 | 1779510 | -76.08154 |
| **Total** | **4905524215** | **4175381066** | 14.8841 |

The company believes that with the dismantling of quota regime from 1st of Januray 2005 there shall be opportunity to grow at geometric rate. Company strives to achieve the capability of making the most of the garments, efficiently and competitively, which makes it as a one-stop shop for its customers. The company plans to setup additional capacities and intend to make capital expenditure of around Rs 36 Crores during the financial year of 2005.

As at 31/03/2004, Companies consolidated investment in subsidiary companies such as O.C. Collections Pvt. Ltd., Orient Designs Pvt. Ltd., O.C. Fashion Apparel (Pvt.) Ltd. And Orient Craft USA INC stands at around Rs. 1.5 crores. Besides this the company had extended around Rs. 2.84 Crore as loans and advances which can be received in kind or value from the subsidiaries.

The increased activity of the company is evident from its increased manufacturing expenses to the tune of 19%. **It is significant to note that the expenditure incurred in terms of embroidery amounts to Rs 33% increase while comparing with the previous year expenditure for the same. It clearly indicates that the work for embroidery is not performed within the factory and probably outsourced to its subsidiaries.**

Similarly the company experienced increase to the tune of 23% towards payment and provisions for employees. Salaries - Wages and Bonus, Employers contribution to ESIC and PF have also increased respectively to the tune of 22%, 35% and 39%. It also clearly indicates growth in number of employees.

Table : Payment and provisions for Employees of Orient Craft Ltd.

| | **Amount in Rs.** | | |
|---|---|---|---|
| **Payment and provisions for Employees** | As at 31/03/2004 | **As at 31/03/2003** | Increase in % |
| Wages, Salaries & Bonus | 596055156 | 460858445 | 22.68191 |
| Employer's Contribution to ESIC | 11552002 | 7556230 | 34.58943 |
| Employer's Contribution to P.F | 34638660 | 21115841 | 39.03967 |
| Staff Welfare Expenses | 27503525 | 25381650 | 7.71492 |
| **Total** | **669749343** | **514912166** | 23.11868 |

While on one hand the company experiencing the growth, its troubled employment relationship is evident in terms of the claims against the companies by labour and ESI, which stands at the amount of Rs 11961701, which includes the disputed claims through labour cases of Rs 88 Lac.

**Recent Capability Building:**

In September 2005, Orient has acquired a Levi's plant in Spain for Rs. 60 crores. The machinery from the newly acquired plant will form part of the company's expansion plan at Manesar. "The lifting of quota has brought humongous demands on one side and on the other, buyers are getting increasingly quality conscious. In the changed scenario, it is important to have machinery comparing global standards," said Mr. Dhingra.[9]The company is planning to raise Rs. 350 crore through initial public offer (IPO) in late 2006.[10] According to the management, part of the money raised through will be used for setting up new facilities over the next two years.

It also plans to invest Rs.200 crore for setting up new facilities in the NCR. The company is also planning for a 600acre textile SEZ with an investment of Rs. 2000 crores.[11] The company has already acquired 400acres. According to the management, the company would initially invest Rs. 300-400 crores in the SEZ and invite further investments from co-promoters. The OCL is also "seriously contemplating" entering the domestic market. "We would enter the domestic market in colloboration with foreign brands this year," Dhingra said. It is in talks with 3-4 international brands from the US and Europe who are not currently represented in India.[12]

[9] Source: http://economictimes.indiatimes.com/articleshow/msid-1232753,prtpage-1.cms
[10] Source: http://economictimes.indiatimes.com/articleshow/1519235.cms
[11] ibid..
[12] Source: http://economictimes.indiatimes.com/articleshow/msid-1519235,prtpage-1.cms

## Case 2: CTA Apparels Pvt. Ltd.

CTA Apparels is a garment manufacturer based in New Delhi, India, manufacturing and exporting ready-to-wear garments for men, women and kids, to some of the famous retail chains across the world. Founded over 15 years ago, export turnover currently US$ 5 Million.

CTA Apparels has 2 Hi-tech manufacturing facilities; located in Noida, near New Delhi (India). Covering 65,000 sq ft with over 935 State-of-the-Art machines. They are Unit-I, C-32, sector 58, Phase lll, Noida, U.P, India and Unit-II, A-60, Sector-58, Phase lll, Noida, U.P. India. Its corporate office is located at 59-B, Friends Colony East, New Delhi110065, India.

Production facilities[13]:

A highly skilled work-force comprising of 1100 operators & technicians and 200 general staff, with 23 Lines, work to a capacity of producing 9,000 garments per day. CTA Apparels uses specialized imported machinery bought from reputed international machine manufactures from across the world for all complex operations.

**Brands:**

The CTA Apparels Pvt. Ltd. produces for following buyers and their labels provided in Table .

**Table : Major Buyers & Fashion Labels produced at** CTA Apparels Pvt. Ltd.

| **BUYER** | **LABEL** |
|---|---|
| H&M (Sweden) | Divided, Hennese, Rowells |
| Hagger | Hagger |
| Wal Mart (USA)* | Wal Mart |
| New Yorker (Germany) | SMOG, Fishbone |
| Gas Sarl(SBT) (Guadeloupe) | SBT Sebastiano |
| Madamar (Italy) | Rodrigo, Allan Devis |
| Mavecon | Luck in Luck |
| Korotex (Switzerland) | San Macro |
| Migros (Switzerland) | Classic Line, Authentic Wear |
| Forestal (Spain) | Monopatin, Forestal |

**Source** : http://www.ctaapparels.com/our_customers.htm * During the interview by the researcher an employee of the company gave this information. Wal Mart is not mentioned in the company's website.

**Study of Financial positions:[14]**

While comparing with the previous year (2002-2003), CTA Apparels Pvt. Ltd has experienced more gains in the year 2003-2004. The company has achieved an export sale of Rs 1470.81 Lac (Previous Year 669.83 Lac) for the year-ended march 31, 2004, which

[13] The source for the basic information on production facility of the company is its website – www.ctaapprels.com

[14] The source for all the financial conditions of CTA Apparels Pvt. Ltd. is its Annual Report 2003-2004

is 119.58% higher than the sales of the previous year. The company has also achieved significant gains in earnings in foreign exchange of export of goods calculated on FOB Basis Rs 14,50,18,477.00 (Previous Year Rs 6,65,27,757.17), which amounts to 54% increase.

**Table : Financial Performance of CTA Apparels Pvt. Ltd.**

| S.No | Financial Performance (Amount in '000) | | | |
|---|---|---|---|---|
| | **Year** | **As on 31/03/2004** | **As on 31/03/2003** | **Increase in %** |
| 1 | Net profit | 13800 | 2994 | 78.30434783 |
| 2 | Provision for Tax | 1840 | 424 | 76.95652174 |
| 3 | Profit After Tax for the year | 11389 | 2173 | 80.92018614 |
| 4 | Balance B/f from previous year | 58805 | 49371 | 16.0428535 |
| 5 | Surplus C/f to Balance Sheet | 70194 | 58805 | 16.22503348 |

As table shows the CTA Apparels Pvt. Ltd. has experienced 78% increase in its net profit and 80% increase in its profit after tax.

Table : Purchases and Sales

| **Purchases and Sales** | | | | | | **Increased Quantity in %** | **Increased Amount in %** |
|---|---|---|---|---|---|---|---|
| | **Current Year** | | | **Previous Year** | | | |
| | **Unit** | **Quantity** | **Amount (Rs)** | **Quantity** | **Amount (Rs)** | | |
| **Purchases** | | | | | | | |
| Cloth | Mts. | 184266.16 | 56299933.17 | 729379.57 | 26255786.13 | -295.8294 | 53.3644453 |
| Knitted Cloth | Kgs. | 21170.71 | 3771055.42 | 2604.32 | 388240.84 | 87.69848 | 89.7047167 |
| **Sales** | | | | | | | |
| Garments | Pcs | 787498.00 | 147080598.80 | 337376.00 | 66982614.00 | 57.15849 | 54.4585659 |
| Cloth | Mts. | 0.00 | 0.00 | 22600.00 | 350300.00 | | |

The above table on purchases and sales of CTA Apparels Pvt. Ltd. shows that staggering 88 % increase in the purchase of knitted cloth while comparing with the previous year. Similarly the company has experienced 57% growth in the garment pieces sold and 54% increase in the amount gained against the sold garment. It indicates the slight fall of amount gained against the sale of garment per piece. It is significant to note that the price gained per piece in the year 2002-2003 is Rs. 198.53 and the price gained in the year 2003 – 2004 is Rs. 186.76.

Table : Material and Manufacturing Expenses of CTA Apparels Pvt. Ltd.

| S.No | Material and Manufacturing Expenses | **Amount in Rs.** | | |
|---|---|---|---|---|
| | **Year** | **2003-2004** | **2002-2003** | **Increase in %** |
| 1 | Material Consumed | 63861083.10 | 37897273.97 | 40.65670025 |
| 2 | Manufacturing Expenses | 55638928.61 | 21705016.56 | 60.98951381 |
| 3 | Electricity and Water Exp. | 2485205.78 | 1406292.00 | 43.4134585 |
| 4 | Generator Repair and Maintenance Charges | 2151887.00 | 1365888.72 | 36.5260016 |

| | | | | |
|---|---|---|---|---|
| 5 | Insurance Expenses | 326899.00 | 231506.00 | 29.1811844 |
| 6 | Rent Paid | 559500.00 | | 100 |
| | **Total** | **125023503.49** | **62605977.25** | 49.92463377 |

It is significant to note that the company has experienced 49% increase in its material and manufacturing expenses including 61% increase in manufacturing expenses and 41% increase in expenditure on material consumed.

Table : Payments and benefits provided to the employees of CTA Apparels Pvt. Ltd.

| Payments and Benefits to Employees | **Amount in Rs.** | | |
|---|---|---|---|
| **Year** | **2003-2004** | **2002-2003** | **Increase in %** |
| Salary to staff | 2977296.00 | 1207451.00 | 59.44471091 |
| Allowances to Staff | 907026.00 | 479863.00 | 47.09490136 |
| EPF | 213874.00 | 170536.00 | 20.26333262 |
| ESIC | 87084.10 | 59214.65 | 32.00291442 |
| Labour and Staff Welfare Expenses | 198597.00 | 165432.00 | 16.69964803 |
| **Total** | **4383877.10** | **2082496.65** | 52.49646369 |

The growth in capability and increased production activity in CTA Apparels Pvt. Ltd. is evident in terms of growth in its payments to employees. The company has experienced 52% increase in payment to employees including 59% increase in salary to staffs and 47% increase in allowances to staffs. At the same time there is no corresponding increase in payment of EPF and ESIC which shows that less number of staffs have been made permanent and covered under these schemes. It also indicates that more work in this company carried out by the temporary and contract workers.

## Case 3: Pearl Global Ltd.

Pearl global is one of the leading readymade garment exporters in India. All four manufacturing units of the company are located at Gurgaon. Pearl Global Ltd. is involved in export of woven garments and supplies to major readymade garments buyers all over the world. Pearl Global Ltd. has exported the following items worldwide: Shirts, Trousers, Shorts, Dresses & Suits Outerwear, Stain sealed garments using goretex, acquatex and Men's shirts, Shorts, Vest, nightwear and childrens garments of all kinds.

**Brands:** The company produces for brands like Adc. Banana Republic, Gap, Old Navy, Jc Penney, Abercrombie & Fitch, Charming Shoppe, Karstadt/Neckermann, Siplec, Castromen, Lerros, H & M.

**Company Information:**

| | |
|---|---|
| Holding Company | Mina Estates Pvt Ltd |
| Subsidiary Company | Pearl Styles Ltd |
| Fellow Subsidiary Companies | Nim International Commerce Pvt Ltd |
| | City Estates Pvt Ltd |
| | Winner Estates Pvt Ltd |

| | |
|---|---|
| | Vau Apparels Pvt Ltd |
| Associates | Engineers Designers & Consultants Vastras |
| | Pearl Wears |
| | Crown Computerised Embroideries |
| | Hopp Fashions |
| | Little People Education Society |

Total number of workers employed in Unit No 1 is around 1500 for 1 shift. This company runs two shifts. Thus it employs around 2,500 to 3000 workers. In Unit No 2 around 500 workers are employed.

**Study of Financial positions:**[15]

The Sales turnover at Rs. 9281.15 Lacs increased marginally by 4.75% against 8860.21 Lacs during the previous year. However the company has achieved 24.07% of increase in profit after tax from 127.02 lacs in the year 2002-2003 to 167.28 in the year 2003-2004.

In 2002-2003 The company has sold 3.32 Million Pcs of readymade garments against 2.54 Million Pcs sold during previous year thus recording a growth of 30% in terms of quantity. However the following table shows that significant amount of reduction in price achieved for garment per piece Rs. 296.12 in the year 2002-2003 to Rs. 258.69 in the year 2003-2004. Similarly the price for fabric per Meter has reduced from Rs. 65.64 to Rs. 57.34.

Table : Break up of sales of Pearl Global Ltd.

| | **As at 31/03/2004** | **As at 31/03/2003** | Amount Per Pcs/ mtrs | **As at 31/03/2004** | **As at 31/03/2003** | Amount Per Pcs/ mtrs |
|---|---|---|---|---|---|---|
| **Break Up of Sales** | Quantity | Amount | | Quantity | Amount | |
| Readymade Garment Pcs | 3318986.00 | 858576180.01 | 258.69 | 2545125.00 | 753666116.70 | 296.12 |
| Fabric Mtrs | 374627.92 | 21482593.60 | 57.34 | 1097352.00 | 72025049.52 | 65.64 |
| Others | | 5337600.09 | | | 11104298.34 | |
| **Total** | | **885396373.70** | | | **836795464.56** | |

The reading of financial conditions, manufacturing expenses, investments and current assets indicates that the Pearl Global is moving towards building a integrated manufacturing facility. Particularly the increase in the fixed assets in terms of 32.76 % towards buildings signifies its initiative towards increasing its capacity.

Table : Fixed Assets of the Pearl Global Ltd.

| **Fixed Assets** | **Net Block (In Rs.)** | | Increase in % |
|---|---|---|---|
| **Particulars of Assets** | **As at 31/03/2004** | **As at 31/03/2003** | |

[15] The source for all the financial conditions of Pearl Global Ltd. is its Annual Report 2003-2004

| | | | |
|---|---|---|---|
| Land Freehold | 52137356.08 | 48669711.08 | 6.65 |
| Land Leasehold<br>Buildings | <br>109102295.97 | 3188000.00<br>82182764.41 | <br>32.76 |
| Plant and Machinery | 99021245.36 | 89288735.49 | 10.90 |
| Vehicles | 9839939.86 | 9025263.86 | 9.03 |
| Furniture and Fixtures | 17291175.94 | 14207395.67 | 21.71 |
| Disposable Assets | 2239239.87 | 21990319.74 | -89.82 |
| Capital Work in progress | 2214010.00 | 5980651.00 | -62.98 |
| **Total** | **291845263.08** | **274532841.25** | 6.31 |

During the year the company has experienced 12.9% increase in manufacturing expenses from Rs. 142684265.65 2002-2003 to Rs 162498077.25 in the year 2003-2004. At the same time it is important to note that the companies expenses in terms of wages salaries and Bonus has decreased 1.41% from Rs. 93330446 in the previous year to Rs. 92037189.45 in 2003-2004.

**Table : Capacity and production**

| **Class of Goods** | Unit | Licensed Capacity | | Installed capacity** | | Actual Production | |
|---|---|---|---|---|---|---|---|
| | | **As at 31/03/2004** | **As at 31/03/2003** | **As at 31/03/2004** | **As at 31/03/2003** | **As at 31/03/2004** | **As at 31/03/2003** |
| Readymade Garments* | Nos | 2495000.00 | 2495000.00 | 2210000.00 | 2210000.00 | 3435506.00 | 2647670.00 |

Note:

* Including Knit wear

**Above installed capacity does not include the capacity, which can be expanded through contract work

The above table shows that 1225506 pieces of readymade garments have been produced through contract work. It may be noted that these extra capacity might be achieved subsidiary companies.

**Table : Investments**

| **Investments** | **As at 31/03/2004** | **As at 31/03/2003** | Increase in % |
|---|---|---|---|
| Investments in Government Securities | 8500.00 | 8500.00 | 0.00 |
| **Investment in Subsidiaries** | | | |
| Pearl Styles Ltd | 15255635.00 | 15255635.00 | 0.00 |
| **Quoted (Trade)** | | | |
| Pearl Engineering Polymers Ltd | 5000000.00 | 5000000.00 | 0.00 |
| GIVO Ltd | 498000.00 | 498000.00 | 0.00 |
| **Unquoted (Trade)** | | | |
| Vau Apparels Pvt.Ltd | 100.00 | 100.00 | 0.00 |
| Investment in Partnership Fir- M/s Hopp Fashions | 38869458.69 | 34261324.97 | 11.86 |

Pearl Global Ltd.'s investment pattern suggests the mutual contributory nature of relationship between its subsidiaries and associate firms. It is significant to note that the subsidiary and associate firms perform job works for the Pearl Global Ltd. In year 2003-

2004 the company has received job work worth Rs. 79,475,190.00 from Pearl Styles Ltd and paid for job work worth Rs. 77,285,000.00 from the same company.

The company has also had similar exchanges between its associate companies. In addition to it, the strong relationship between Pearl Global Ltd. with its subsidiaries and associates can be understood from the following table, which explains the financial support provided by Pearl Global Ltd. This close relationship between its subsidiaries enables the Pearl Global Ltd. to outsource its production activities to its subsidiaries.

Table : **Sundry Debtors and Loans and Advances Given to Companies**

| **Sundry Debtors and Loans and Advances Given to Companies** | **As at 31/03/2004** | **As at 31/03/2003** | Increase in % |
|---|---|---|---|
| **Sundry Debtors** | | | |
| Holding Company | 3704770.98 | 3199970.98 | 13.63 |
| Fellow subsidiary | 14931101.00 | 11440333.00 | 23.38 |
| **Loan and Advances** | | | |
| Pearl styles Ltd | 82447589.00 | 110087943.78 | -33.52 |
| Winner Estates Pvt Ltd | 805200.00 | 575200.00 | 28.56 |
| Crown Computerised Embroideries | 962349.00 | 524953.00 | 45.45 |

The manufacturing facilities at its gurgaon plants are being expanded with state-of-the-art imported machinery and finishing facilities to bring these in line with the perception of International buyers who prefers to deal with the Corporate having integrated manufacturing facilities. Renovation and modernization of corporate office with Show rooms, Sampling Facilities, Fabric Stores, are in process. Brand Marketing and efficient global distribution is the second major area of thrust for the company.

The company is implementing a modernization programme with a total outlay capital of Rs. 200 crores approximately through TUFS scheme and loan outlays. The modernization and expansion plans include setting up Knitted T-shirt manufacturing facility at Tirupur (Netaji Apparel Park). Further, another Industrial Plot of 9800 Sq. Mtrs. located in MEPZ – Special Economic Zone, Chennai, Tamil Nadu, has been taken on lease rental basis for setting up a fully automatic state-of-the-art Manufacturing Unit for production of Jeans/ Bottoms, at an approximate cost of Rs.11 Crores. An Institutional Plot in Netaji Apparel Park, 62, Appachi Nagar, Tirupur, Tamil Nadu, an Institutional Plot no. 37 is allotted to the Company for setting up a Knit Division of the Company at an estimated cost of Rs.4 Crores.

It is important to note that the company has not recommended dividend from the year 2002-2003 with the view to conserve resources to increase the capability of the company and face the challenges and eventualities that may surface in the post Quota regime. In this context it is significant to note that in February 2006 the Board of Directors of Pearl

Global Ltd. have accorded their consent to the scheme of amalgamation of Pearl Styles Ltd. and City Estates Ltd. with Pearl Global Ltd.[16]

[16] Source: http://www.pearlglobal.com/news/index.asp

# Chapter 4: Labour and Work in the Garment Industry

The increasing competition among producers in developing countries is forcing them to further reduce their production costs to stay competitive. At the same time it is also essential for the producers to produce high quality value added products at low costs. In a study conducted by the Centre for Education and Communication (CEC), in Industrial areas of Delhi National Capital Territory, Faridabad, Gurgaon and NOIDA which analysed the corporate performance and employment condition of workers in first tier garment exporters also confirms the above discussed macro trends. It was found that the companies under study have experienced price reduction from 6 percent to 14 percent in the year 2002-2003 to 2003-2004 respectively. It is significant to note that the production of these companies have increased while the realization per piece of garment has decreased. Companies under study are major suppliers for big brands like GAP, Wal-mart, Lees, Levis, Polo and so on. A survey was conducted among 159 workers. Following is the brief report of results of the study.

In the survey it is quiet evident that the developments in the textile and garment sector have substantially contributed to the increasing wretchedness of workers. Workers rights are blatantly violated with regards to nature of employment, working hours, overtime work, social security of workers and the right to organize.

**Nature of Employment**

Majority of the workers interviewed did not have a permanent status of employment. Particularly since 2001 most of the companies have reduced their intake of permanent workers. Only 37.11 % workers were permanent and directly employed by the company; 62.89% workers were on contract either by the contractor or by the factory management. The terms of employment was not specified for the daily wage earners or casual workers and contract workers. Contract employment is the predominant form of employment in the garment industry in the NCT of Delhi. But it is significant to note that there is no substantial or real difference in the working and living conditions of these workers. Contract employment is practiced in three forms. One is that the contractor just supplies manpower to the company. The contractor recruits workers through two methods: a) through gate notices i.e. the contractor recruits workers through gate notices at a particular factory. and b) through contractors' recruiting agencies i.e contractors have their own recruiting agencies who bring in workers from different parts of the city. Under this method the salary of the worker is directly paid to labour contractor and the contractor deducts the commission and then pays rest of the amount to the worker.

The second method of contract system (may be called as in-house contract or in-house outsourcing) is that, particular kind of tasks, for ex. thread cutting, folding are given to the contractor, who brings workers and performs the tasks within the factory. In this case whole responsibility of the task is on the contractor. In many occasions workers consider themselves as they are working for a particular company but in reality they are working for the contractor. Here also the total wage is given to the contractor and pays wages on piece rate system or the payment is made according to the hours worked. In this system workers work for a month or two or even for less than a month. There are absolutely no social security benefits provided under this system. Thirdly, there is also outsourcing of specific tasks to subsidiaries or the third parties. These methods pave the way for primary employer to escape from the responsibility of providing due wage and social security for their workers.

Irrespective of their status as permanent workers' job security is depend on his or her compliance with the demands of the management. It gives tremendous flexibility to the industry to recruit workers as required, always keeping a reserve labourforce.

It is worth here to mention employment practice deployed by the textile industry in Tamil Nadu that is translating into captive or bonded labour. Adolescent girls from neighboring countryside are lured to work in large textile units in towns like Coimbatore-Tirupur cluster, Erode, Dindigul and Vedasanthur. Their contract spells out an amount like Rs. 30000 which they are entitled to get after a 3 year period of service. 'Sumangali[17]' System as it is called uses the dowry practice[18] as its USP. These girls reside have to within the factory premises and work over 12 hours a day.

These methods of recruitment also prevent workers from raising any demand related to bonus or working conditions. In these precarious conditions of permanent employees do not even allow them to think about forming a trade union. It effectively seals possibility of forming a trade union.

## Working Hours

CEC's study shows that garment factories follow erratic work timings as quoted by a worker, "a worker can know that what time he leaves from the home. But he/she does not know when he/she will go back to home after the work". The industry has managed to keep working hours extremely flexible. Industry argues that seasonal flexibilities in the industry demands deregulation of working time. The primary survey reveals that for a whooping 64.78 % of the workers working hours stretched upto 16 hours or more in a day (including overtime)[19]. Though both permanent and contract employees work long hours, among those working for more than 16 hours a day, the per cent of contract workers were double that of the permanent workers.

This violates all provisions in the relevant statutory instruments. The Factories Act and the Factory Rules for Delhi, Haryana and Uttar Pradesh specify that working hours in a day including overtime should not exceed 9 hours[20]. The nine hours is also subject to a

[17] 'Sumangali' is a generic term which means a married woman who have a higher social status

[18] 'Dowry' is an amount of money or property or gift given in some societies by a bride's family to her bridegroom or his family when she marries. It is a dominant social practice in India. In some traditional communities the practice extends to being the basis for determining match , non payment of dowry leading to severing ties or torture of the bride

[19] The analysis of total working hours includes overtime. Workers receive wages for the total hours of work inclusive of overtime

[20] Section 54, Chapter VI, Factories Act, 1948 as amended by the Factories Amendment Act 1987

maximum of 48 hours in a week[21]. Under certain exemptions the working hours including overtime are allowed further only up to 12 hours, subject to a maximum of 60 hours in a week[22]. Such abnormal working hours were spread throughout the year except in the months of April, June, July, August and September, which are non-seasonal period of the industry.

To evade the law enforcing authorities many companies do not mention the total number of hours worked for overtime in the pay slip. But the companies maintain a separate register for calculating the overtime work. With this work regime one can understand the time a worker can spend for his/her social engagements. It is important to note that the overtime work is not a choice but a mandatory task to be performed. However, many workers willingly work overtime. It is the low payment that drives them to work overtime at the cost of their health and social interaction. Whether the worker is permanent or temporary, there is no difference in how the management treats them.

## Wage as an instrument of Control

Considering that statutory minimum wage is for 9 hour working day, only 0.63 per cent of the workers are actually getting minimum wage. Rests of the workers have to work upto 16 hours or more to get the minimum wage. More shocking is the information that among those who work for 16 hours or more, about 35 % of workers still earn less than minimum wage[23]. This observation is substantiated by the fact that a great majority of the workers (71.07 per cent) are not paid overtime wage at the premium rate (double the normal wage). Workers are vulnerable and do not get subsistence wage even after working overtime within the existing ‘rigid’ and ‘welfare oriented’ regulatory framework.

## Social Security Benefits

Almost half (46.54%) of the workers said that they are deprived of social security benefits. Even among the workers who receive social security benefits, it is observed that social security is understood only in terms of PF and ESI benefits. The proportion of workers getting other social security benefits like gratuity, crèche, maternity benefits, coverage under accident scheme and retrenchment benefits are negligible. Interestingly, both permanent and non-permanent workers said that they are deprived of social security benefits. While in Tier I companies there has been an increase in the total expenditures on manufacturing, it is surprising to note that there is no corresponding increase towards payments of PF and ESI to the workers 24.

---

[21] Section 51, Chapter VI, Factories Act 1948, as amended by the Factories Amendment Act 1987

[22] Section 64, Chapter VI, Factories Act 1948 as amended by the Factories Amendment Act 1987

[23] Minimum Wage has been calculated by looking at the present minimum wage according to the latest notifications separately for each region (Delhi, NOIDA and Gurgaon) for each category of workers in the readymade garment industry (Highly Skilled, Skilled, Semi Skilled and unskilled)

[24] This observation is based on a corporate research conducted by CEC among top 10 Tier I Garment Suppliers from Delhi and NCR in 2005. Particularly this conclusion has been arrived at based on the conclusions of annual reports of some of these companies since 2002. In one of the leading tier I supplier expenditure on labour cost (wage, salary and bonus) has decreased.

## Freedom of Association and Collective Bargaining

Despite laws being in place, freedom of association and the right to collective bargaining remain a distant realization for the workers in garment industry. Primary survey reveals that 81.13 % of the workers are not unionized. Only 3.14 % of the workers regularly participate in trade union activities. It is significant to note that some of the major Tier 1 suppliers studied have actively discouraged formation of unions in their premises. In some instances company sponsored unions have been formed to serve the management.

## Conclusion

Prices for products in the international market are experiencing a downward pressure but profit margins are increasing at the top levels of the value chain. In an attempt to reduce the cost of production it is not possible for the producer to compromise on the quality of the inputs. So the axe falls on labour. Intensification of work, non-payment of wages, non-payment of social security are ways of reducing labour costs. This is amply demonstrated by various studies including the present one.

Pressures to decrease the cost of production have two immediate consequences - decline in price of the product and decline in labour cost. The reduction in cost of production is due to international pressure and not because of the rigidities or regulations of the local labour market. CEC's study has not shown any reduction in the turnover or profit margins of the Indian Tier – I companies, in fact since the MFA phase out we have seen an increase in turnover as well as profit margins of Tier – I companies.
Given the international market pressures, investment plans of big players in the industry are increasingly focusing towards tapping the potentials of domestic market and towards brand building. This also corresponds with the recent trends in the Tier – I companies to go for massive consolidation and initiatives towards gaining comfortable economies of scale. In this context an offensive take on deregulation of labour regime is propagated.

Industrialists in India are fiercely lobbying for deregulation of labour laws. The emphasis on liberal labour regulatory framework assumes that it can improve employment generation in quantity and quality. Further, it is argued that liberal labour regulatory framework is a precondition for India achieving export growth and effective competitiveness with the neighboring countries. But the reality is far from this assumption. Even within the present 'rigid' regulatory framework, internal and external labour market of the industry remains flexible. CEC's study exemplifies that the assumed generation of employment in quantity and quality within a non-regulatory framework will further worsen the conditions of employment, wages, employment security as well as social security for workers. Another casualty in such a push would be the basic human right to association and being represented.

While acknowledging the phenomenal growth being experienced by the industry, one cannot belittle the contribution of Indian labour in making the Indian Garment and Textile industry internationally competitive. While there is no empirical evidence that suggests the labour cost reduces the competitiveness of the industry, it is not fair to demand for more flexibility in labour laws. It is crucial to note that flexibility will bring in insecurity among labour, which will have negative impact on the productivity of the industry. It will affect building a competitive and capable workforce armed with education, training and specialization. Thus the industry should direct its energy towards building a strong workforce and creating competitive infrastructure that would further improves the competitiveness of the industry in the international arena.