Note on Challenges faced by the Textile Sector in Accessing Credit

1. Context

1.1. India's textile sector currently employs over 45 million and contributes about 2.3% to GDP. Government of India has set an ambitious target to develop US$ 250 Billion Textile industry by 2030 and scaling up textile and apparel (T&A) exports to $100 billion by 2030. Achieving this target requires addressing cost inefficiencies across the T&A value chain.

1.2. Financial costs form a major component of India's cost disability in Textiles & Apparel sector. The sector remains trapped in a low-credit cycle—its economic importance not equally matched by financial access. Despite its scale, sector in general and MSMEs within it face chronic underfinancing due to sector-specific risks, cautious lending, and global volatility.

1.3. The banks, often, are also hesitant to lend to the textile industry due to a combination of factors including high risk, fluctuating cotton prices, and the industry's reliance on global demand.

1.4. Government efforts have spurred growth, but affordable credit remains the industry's one of the challenges. Working capital shortages lead to underutilized capacity and delays, weakening global competitiveness—especially for exporters. This disconnect between economic significance and financial access reveals a deeper structural paradox: a high-impact industry trapped in a low-credit cycle. The challenge transcends various textile segments and balance sheets; it's woven from industry-specific vulnerabilities, risk-averse lending practices, and an increasingly volatile global economic climate.

1.5. At Bharat Tex 2025, the Hon'ble Prime Minister underscored the need for access to credit "……..***To those in the banking sector, I would like to emphasize – please take note of their needs, understand the priorities, and extend your support accordingly……".*** As India strides toward Viksit Bharat @2047, unlocking the sector's potential demands future-ready credit systems, modernization, and resilient export mechanisms is imperative.

2. **Snapshot of the Credit flow to the Textile Sector in the last decade:-** Over the last decade, the Reserve Bank of India's *Sectoral Deployment of Bank Credit* report reveals a nuanced story for the textile sector—marked by volatility, structural shifts, and persistent credit constraints. The sentiment is endorsed by the ASUSE survey of 2023-24.

2.1. High Cost, Low Access: With lending rates at 11–12%, India lags behind Vietnam (7–8%) and China (6–7%)[1]. For MSMEs, access and cost of credit remain the biggest hurdles:17–20% of units cite this as a critical barrier to growth and competitiveness[2].

2.2. Assessing Credit Gap: Only 14% of MSMEs access formal finance. The resulting ₹30 lakh crore gap fuels dependence on informal channels[3].

2.3. **Key Credit Trends from RBI and Sectoral Data**:

a. Over the past decade, credit to India's textile sector has followed a stop-start trajectory, shaped by global shocks, policy transitions, and shifting lender preferences. RBI data

[1] NITI Aayog Evaluation Report: Impact Assessment of "Technology Upgradation Funds Scheme (TUFS)

[2] *ASUSE, 2023–24*

[3] SIDBI (2025): Understanding Indian MSME Sector – Progress and Challenges

(**Annexure I**) and industry reports reveal the set of patterns that underscores the challenges of access to credit in the sector.

b. Volatile Credit Flow: Lending has been erratic, driven by cotton price swings, global demand shocks, and structural reforms like GST, which disrupted working capital cycles.
c. NPA Legacy: With NPA ratios peaking at 8–9%, banks have long flagged textiles as high-risk, leading to tighter collateral norms and cautious disbursals. Legacy risk perception still deters formal lending
d. COVID Shock: Lending collapsed in 2020, falling to ₹1.62 lakh crore, as production halted and demand evaporated.
e. Peak and Recovery: Credit peaked at ₹2.03 lakh crore in 2017, then dipped. A gradual recovery began in 2021, supported by ECLGS and SIDBI liquidity schemes.
f. Recent Acceleration: As of April 2025, RBI data shows accelerated YoY credit growth to textiles, aligning with trends in metals and construction.
g. Structural Shift: Lending is increasingly skewed toward technical textiles and large integrated players as compared to MSMEs.
h. Persistent Bottlenecks:
    - High working capital needs and 90+ day payment cycles
    - Low uptake of CGTMSE and modernization schemes
    - Legacy risk perception continues to deter banks

3. Challenges of Credit

3.1. MSME Dominance, Yet Marginalized

a. Over 80% of textile units are MSMEs, but only 16% access formal credit[4].
b. Despite 6.2 crore registrations via Udyam Assist (March 2025), 35% of micro units (surveyed) remain unregistered (SIDBI 2025). This entrenched informality—marked by unaudited financials, poor documentation, and weak credit histories—continues to disqualify many from institutional lending.

3.2. Credit Penetration Gaps:

a. 12% of micro-enterprises still borrow informally, compared to 3% of small and 2% of medium enterprises (*SIDBI, 2025*)
b. Only 20% of micro & small and 9% of medium enterprises accessed bank credit by 2024 (*NITI Aayog/IFC*).
c. India's MSME credit penetration is just 14%, far behind China (37%) and the US (50%).
d. Women-led enterprises face the steepest barriers, contributing to a ₹30 lakh crore credit gap (*SIDBI, 2025*).

3.3. Dual Burden: Margin Squeeze and Credit Crunch

a. Very thin margins on products from intense global competition and volatile input costs (MMF yarn, energy).
b. Long production cycles and delayed payments, 60% of firms experience 90+ day payment delays, pushing them toward expensive informal lending.
c. Inventory Lock-ins: Raw material volatility forces mills to hold 2–3 months of stock. Inverted GST structures in MMF further block working capital via Input Tax Credit accumulation. Fabric made from MMF fibre is taxed at 5% GST, while the yarn used to produce it is taxed at 12%, and the fibre (such as polyester or viscose) from which the yarn is spun is taxed at 18% (CBIC).

[4] Wazir Advisors, 2023

d. Export earnings were destabilized by COVID and post-pandemic tariff shocks.
e. Scheme Limitations: **Short loan tenures for machinery—despite asset lifespans exceeding 20 years—further strain repayment capacity.**
f. Green Finance Deficit: Absence of dedicated credit lines for ESG-compliant machinery stalls sustainability-linked investments.
g. Greenfield Project Gaps: Banks hesitate to fund new ventures, often excluding key costs like land and LC charges—leaving projects undercapitalized.
h. High margin money requirements (25–40%), procedural delays, and sudden credit limit cuts disrupt production and delivery schedules.
i. Export Credit Constraints

3.4. **Institutional Reluctance and Legacy Risk**

a. Spinning & weaving flagged as high-risk due to raw material price volatility e.g. 15%+ cotton price volatility (2024), fragile margins, and debt servicing pressures.
b. Past Defaults: 8.8% NPA rate; 6.9% stressed advances (*RBI, 2015*).
c. 2024 FICCI–IBA survey: 76% of banks label textiles "high NPA risk".
d. Systemic write-offs (₹9.9 lakh crore in 5 years) have spurred risk aversion.

3.5. **Collateral, Transparency & Technology Barriers**

a. Only 12% of textile MSMEs accessed Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) backed loans (RBI, 2022).
b. Programs like CGTMSE offer limited relief—short tenures, capped guarantees (₹5 crore), and procedural complexity hinder uptake. Collateral shortages, lack of audited data, and poor awareness hinder uptake—especially in rural areas.
c. Despite ₹17,822 crore allocated under ATUFS, only ~2,000 units modernized (2016–2022).
d. Outdated technology of the manufacturing keeps productivity low and creditworthiness weaker.
e. **Exporters face hurdles: pre-shipment loans often require collateral, even when backed by ECGC guarantees.**
f. **Rejection of Machinery as Collateral: textile machinery (worth crores) not being accepted as collateral; cripples loan access**

3.6. **Capital Cost Disadvantage**

a. Effective **interest rates hover at ~16%** under CGTMSE—much higher than global peers.
b. No replacement for ATUFS post-2022 and withdrawal of the Interest Equalisation Scheme (post-June 2024) raise credit costs for exporters.
c. Inconsistent interest rates levied on MSMEs of similar creditworthiness under Manufacturing Credit Guarantee Scheme (MCGS) creates disadvantage for smaller enterprises.
d. High insurance premiums burden specific sub-sectors like knitting and woven fabric.
e. Import duties and GST make machinery 36% costlier than China, making Indian fabric manufacturers uncompetitive.

3.7. **Regional Inequities and Fintech Gaps**

a. Credit is concentrated in 3 cities—Surat, Mumbai & Bengaluru (80%).
b. Liquidity plunged in Kanpur (-42%) and Delhi NCR (-40%), while Tiruppur held steady (-7%).

c. Emerging zones (NE, Odisha, Jharkhand) remain underserved due to low banking presence and tailored schemes.
d. Fintech Potential Underutilized: 450+ fintechs, $1.7B invested—but low adoption among textile MSMEs due to digital friction and trust barriers.
e. TReDS (**Trade Receivables Discounting System**) volume reached ₹32,000 crore (H1 FY25), yet access remains narrow.
f. Institutional Imbalance: While public sector banks handle 63% of textile loans by number, private banks and NBFCs dominate by value—leaving PSBs overstretched and risk-averse.
g. Over 99% of textile MSMEs are in the micro segment, many informal with weak balance sheets . Despite rising digital adoption, only 18% of MSMEs use formal digital lending platforms, and 90% accept digital payments

3.8. **Exporters Under Pressure: Credit Gaps and Systemic Risks**

a. Exporters, especially smaller firms, face **chronic credit bottlenecks**, threatening resilience in global markets.

b. Export Credit Bottlenecks: Data-Driven Insights

S.no	**Challenge**	**Impact**
1	Delayed LC Payments	Foreign bank delays trigger SMA tagging by Indian lenders—hurts exporter scores.
2	No Credit for Bangladesh Trade	Banks deny funding despite valid LCs.
3	Undercapitalized Greenfield Projects	Key costs like land and LC margins excluded from funding.
4	Credit Rating Bias	Unrated but viable exporters face funding denials.
5	Low Scheme Awareness	ECGC, factoring & TReDS uptake remains low due to digital & knowledge gaps. Small Exporter Fragility highly exposed to trade credit defaults.
6	Digital Disjoint	Redundant paperwork due to EDPMS–Customs integration gaps.
7	Emerging Market Risk Aversion	Banks avoid financing exporters entering non-traditional markets.

3.9. **Macro Headwinds and Regulatory Costs**

a. Demand Slump: H2 2022 exports to US dropped 23.94%, EU by 24.54% which is now picking up.
b. Input Inflation: Crude volatility, cotton duties (10%), and QCOs increase working capital stress.
c. ESG Pressure: With textiles contributing 8–10% of global CO_2 emissions, compliance costs soar—yet no green finance mechanisms exist.
d. Startup Credit Gaps: Programs like Stand-up India have insufficient cap (₹1 crore) for capital-heavy textile units..

3.10. Summary Table of the Challenges and the Reasons of persistence and impact on the Sector are in **Annexure II.**

4. Emerging Initiatives and other Supports

4.1. Institutional Interventions: SIDBI–CMAI MoUs (2025): Collateral-free loans up to ₹5 crore, modernization finance for garments.

4.2. Cluster Outreach: Help Desks in Surat, industrial society partnerships streamline credit facilitation.

4.3. Policy Lobbying: Coimbatore, Ludhiana, Tiruppur units advocate for relaxed collateral norms and export-linked credit frameworks.

4.4. These moves signal a shift toward localized, digitally enabled, and sector-sensitive lending models—but scaling them nationwide will require deeper integration with fintechs, simplified documentation, and stronger last-mile outreach.

4.5. Recent Policy Interventions of the Government (2023–25)

a. ₹9,000 crore infusion into MSME Credit Guarantee Scheme (2023) would enable ₹2 lakh crore in additional credit.

b. Bharat Trade Net (2025) would help Digitize trade documentation for MSMEs

5. Way Forward:

5.1. To address structural credit constraints faced by textile MSMEs through strategic interventions focused on affordability, accessibility, formalization, and modernization.

5.2. **Strengthening MSME Credit Access & Affordability**

a. **Expand CGTMSE coverage** and simplify onboarding, digital access, and claims.

b. **Subsidize interest costs** for CGTMSE-linked loans; offer direct lender-level interest subvention.

c. Extend ECLGS scheme for the textile industry, similar to the one extended during Covid period and extend 30% collateral-free additional loan without turnover limit.

d. **Standardize interest rates** under MCGS for MSMEs with similar credit risk.

e. **Launch sector-specific credit lines** with relaxed collateral and flexible terms.

f. **Introduce Export Factoring** and **Back-to-Back LC model** for easier export credit access. Enable export factoring and revive Back-to-Back LC and Interest Equalization Scheme (IES).

g. **Reinstate Capital & Margin Money Subsidies** (e.g., TUFS) for garment units.

h. **Create cluster-based working capital funds** (e.g., Tiruppur, Surat) with seasonal repayment flexibility.

5.3. **Digital-First Credit Infrastructure**

a. Build a Unified MSME Credit Database linking GST, Udyam, and bank/transaction data.

b. Enable cash-flow-based lending using alternative data like utilities and GST returns.

c. Adopt Unified Lending Interface (ULI) to streamline credit access across lenders.

d. Digitally link systems like EDPMS, Customs, and TReDS to eliminate compliance burdens.

5.4. **Policy Reforms & Regulatory Flexibility**

a. Relax RBI’s lending norms for first-time borrowers lacking credit history or traditional collateral.

b. Rationalize interest rates across lending schemes including MCGS

c. Standardize credit underwriting practices using industry-specific risk metrics- Institutionalize sector-specific risk models to enhance precision underwriting.

5.5. **Green Finance & Sustainable Modernization**

a. Launch a Green Transformation Fund to provide soft loans for ESG-compliant technologies.

b. Support upgrades to energy-efficient looms, water-saving dyeing units, and recycling plants.

c. Introduce ATUFS 2.0 with 10–15% capital subsidy and concessional loans for modernization.

5.6. **Boosting Export Competitiveness**

a. Revive Interest Equalization Scheme (IES) offering 2–3% export credit subvention.

b. Support first-time exporters and underbanked buyers through export factoring enablement.

c. Digitally integrate textile MSMEs into trade infrastructure (e.g., PM Vishwakarma, BharatNet).

5.7. **Tech-Driven Risk Management**

a. Deploy Early-Warning Systems (EWS) for digital credit monitoring and NPA prevention.

b. Develop sector-specific credit scores using GST, Udyam, and real-time transaction data.

c. **Promote data-driven underwriting** to reduce collateral dependency.

5.8. **Fintech Partnerships & Delivery Innovation**

a. Support SIDBI/RBI-backed fintech pilots for last-mile credit in textile clusters.

b. Accelerate fintech integration for onboarding, credit scoring, and factoring services.

c. Provide technical assistance to MSMEs in navigating digital lending and export platforms.

d. Digitally integrate textile units into PM Vishwakarma and BharatNet platforms

5.9. **Capacity Building & Financial Literacy**

a. Conduct state-led workshops on credit-readiness and digital application processes.

b. Launch outreach programs in MSME-heavy regions to boost formalization and awareness.

c. Incentivize digital transactions and GST-linked credit behavior.

5.10. Textiles sector to be brought under priority sector lending category.

6. The Summary of these can be seen in the Table provided in Annexure III.
7. This multi-pronged strategy seeks to create a resilient and inclusive credit ecosystem for textile MSMEs—supporting India's broader goals of industrial formalization, sustainable finance, and export competitiveness

Annexure I

Snapshot of the Credit flow to the Textile Sector

1. Sub-sectoral distribution of credit to various sectors of the Textile Segment (2024 est.):

Segment	Share	Credit (₹ Cr)
Spinning	35%	₹75,000
Garments & Apparel	25%	₹54,000
Weaving & Processing	20%	₹43,000
Technical Textiles	15%	₹32,000
Others (Jute, Silk)	5%	₹11,000

2. Current Landscape of the Credit (RBI, March, 2025)

a. Outstanding textile credit: ₹2.77 lakh crore (
b. Cotton textiles: ₹1.07 lakh crore
c. Man-Made textiles: ₹0.49 lakh crore
d. Jute textiles: ₹0.04 lakh crores

3. Credit Outstanding to the Textile Sector (2015–2025) –(RBI data set)

Year	Outstanding Credit to	Key Observations
2015	2.02	Stable post-ATUFS launch
2016	2.06	Slight uptick; TUFS modernization underway
2017	1.96	Credit contraction post demonetization
2018	2.10	Slight Recovery
2019	2.04	NPA stress; cautious lending resumes
2020	1.92	~6% YoY decline due to COVID-19 lockdowns
2021	2.14	Recovery begins; SIDBI support schemes
2022	2.24	Credit normalization; PLI scheme rollout
2023	2.30	Growth in technical textiles & exports
2024	2.56	Driven by PM MITRA & PLI-linked expansions

Annexure II

Summary Table of the Challenges, Root Cause and Impact on the Sector

Challenge	Root Cause	Impact on Textile MSMEs
High NPA and Defaults	Historic loan slippages, slow recoveries, thin margins	High risk weight, tighter lending standards Lenders remain risk-averse; stricter norms and reduced credit flow
Enormous credit gap	Poor penetration, especially in small firms	Demand unmet despite supply-side capacity
Scheme inefficiencies	Limited reach/scale of CGTMSE, ECLGS, TReDS	Smaller units remain excluded
Working-capital stress	Export decline, cost pressures, limited formal lines. High working capital needs and 90+ day payment cycles	Shrinking margins, reliance on costly alternatives, lender hesitancy
Digital under-utilization	Weak Udyam balance sheets, low digital lending integration	Asymmetrical data => lender hesitancy
Policy misalignment	Generic financial policies not tailored to textile value chains	Structural mismatch in finance access
Policy Uncertainty	Volatile raw material duties and compliance costs deter investment	
Low Formalization	Poor documentation and lack of credit history block institutional lending	

Annexure III

Summary of Reforms and Pathways

Strategic Pillar	Challenge Area	Targeted Reform Measures
Credit Access & Affordability	High NPAs & Defaults MSME Credit Gap High Credit Cost Credit Scheme Limitations Export Factoring Access	Strengthen digital credit monitoring, early-warning tools, payment tracking Expand CGTMSE coverage and simplify onboarding/claims Subsidize interest for CGTMSE-linked accounts Extend ECLGS scheme and 30% collateral-free additional loan without turnover limit. Launch sector-specific credit lines with relaxed collateral Enable low-cost export factoring access
Liquidity & Capital Support	Liquidity Crunch Capital Subsidy Gaps Machinery Upgrade Needs Export Credit Constraints	Create cluster-based working capital funds with seasonal terms Reintroduce Capital & Margin Money Subsidies under TUFS 2.0 Introduce ATUFS 2.0 with 10–15% capital subsidy Provide concessional loans for modernization and small unit upgrade Revive Interest Equalization Scheme (IES); implement Back-to-Back LC model

		Inclusion of Textile Sector under Priority Sector Lending (PSL) category of RBI
Green & Sustainable Finance	Green Finance Deficit Green Infrastructure Needs	Launch Green Transformation Fund with soft loans Support ESG-compliant upgrades (e.g., energy-efficient looms, water-saving dyeing, recycling units)
Digital Credit Infrastructure	Credit Access Infrastructure Compliance Burdens Digital Lending Friction Digital Credit Scoring	Build unified MSME credit database (GST, Udyam, bank data) Link EDPMS–Customs–TReDS systems Promote adoption of ULI and BharatNet integration Encourage alternative credit scoring using GST and utility data
Policy & Regulatory Reform	Policy Uncertainty Regulatory Rigidities Interest Rate Disparities Compliance Challenges	Stabilize raw material duties; align with global cycles Revise credit norms for MSMEs with no history/collateral Standardize MCGS interest bands across lenders Digitally integrate systems to reduce redundant documentation
Fintech Enablement & Innovation	Digital Lending Friction Fintech Integration Export Credit Innovation Factoring Enablement	Promote SIDBI/RBI-backed fintech pilots in textile clusters Provide technical assistance for onboarding to factoring/export platforms Integrate lending infrastructure with PM Vishwakarma & BharatNet Support ULI rollout and last-mile delivery
Formalization & Risk Management	Low Formalization Risk Assessment Gaps Tech-Driven Underwriting	Incentivize GST-linked credit scoring Promote digital transactions to boost formality Use cash-flow-based, data-driven underwriting models
Institutional Capacity & Financial Literacy	Institutional Capacity Institutional Outreach Early Warning Systems	Conduct credit-readiness & financial literacy workshops Train MSMEs on digital application and scoring processes Deploy real-time monitoring tools for proactive NPA control
Export Competitiveness	Export Credit Access Export Credit Constraints Insurance Burden Export Incentive Deficit	Assist exporters with factoring, especially first-time and Middle East-facing IRDAI to rationalize insurance premiums for high-risk textile segments Reintroduce 2–3% subvention under IES for exporters