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Ease of Doing Business and Obstacles in Paying Legal Dues of Workers in Stressed Industries

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Abstract

This paper examines the difficulties faced by workers in stressed industries when employers are unable to pay statutory dues such as gratuity and other terminal benefits. It focuses on the cotton spinning sector in Maharashtra, which has experienced repeated financial instability due to volatile cotton prices, high input costs, and frequent changes in government policy. The paper uses the experience of an early export-oriented spinning mill in Kolhapur to explain how market pressures, operational vulnerabilities, and policy decisions affect both employers and workers.

The case study shows how price shocks, weak export demand, and rising production costs forced mills to reduce wages, cut shifts, and suspend operations. These actions created serious hardship for workers who depended on long-term industrial employment. When mills approach insolvency, existing legal protections become insufficient, and workers are unable to recover their dues despite statutory entitlements. The insolvency framework prioritises secured creditors, and distressed assets often have limited value. As a result, workers remain unprotected.

The paper argues that stronger legal mechanisms and financial safeguards are needed to protect labour in industries that face cyclical distress. It concludes that effective implementation of the new Labour Codes, combined with insurance-based systems for worker dues and targeted state support, can improve ease of doing business while safeguarding workers' rights.

Keywords: Cotton Spinning Sector, Worker Dues, Insolvency, Ease of Doing Business, Labour Codes, Maharashtra Textile Industry

1. Introduction

The purpose of this paper is to highlight the difficulties faced by workers when long-standing factories get closed and employers are unable to meet statutory obligations such as gratuity and other legal dues. Courts also face limitations when employers lack liquidity, which leaves workers with delayed or incomplete settlements. Rather than surveying multiple industries, this paper focuses on the textile sector in Maharashtra as workers in this sector are suffered a lot. The paper examines the experience of one of the state's earliest 100 percent export-oriented spinning units as illustrative examples. The discussion is based in part on practitioner knowledge and reflects patterns that also appear in other manufacturing sectors.

The textile industry in Maharashtra has a long history. Much before independence, organised textile manufacturing began in the region. One of the earliest cotton mills was established by the Tata group in Bombay around 1884, marking the beginning of large-scale industrial spinning in the state. From this point onwards, Bombay (now Mumbai) and the wider Maharashtra region emerged as a major textile hub in

India. The industry expanded further in the 1990s when government policy permitted the establishment of 100 percent export-oriented units in the cotton textile sector. This policy shift encouraged significant private investment and led to the setting up of modern spinning mills across the state, particularly in Western Maharashtra.

At one stage, the cooperative sector in Maharashtra dominated the spinning business nationally. Cotton yarn prices were influenced by the spinning mills of Ichalkaranji, which held a decisive position in the market. Over time, however, cooperative mills became largely non-functional due to management failures and structural weaknesses. Today, less than one-quarter of Maharashtra's cooperative spinning mills remain operational despite substantial financial support from the state government.

During the 1990s, Western Maharashtra, and especially the Kolhapur district, saw a wave of private investment as several export-oriented spinning mills were established. Kolhapur had already been known as an important centre for cotton spinning because of successful units such as Deccan Spinning Mill, ICO Spinning Mill (now Maharashtra Spinning Mill), and other mills across southern Maharashtra. Deccan Mill played a particularly influential role in determining yarn prices across India, which placed Kolhapur in a commanding position in the textile economy.

Maharashtra's advantage historically arose from access to raw cotton and the concentration of skilled labour. Yet the cotton spinning sector has always operated under complex pressures. These pressures intensified in recent decades due to volatile cotton prices, high electricity costs, export fluctuations, and repeated changes in import-duty policies. For instance, in 2022 and again in 2025, the Government of India removed import duties on raw cotton to stabilise domestic prices (Press Information Bureau, 2022, 2025). Such measures altered market expectations and affected the financial stability of mills holding high-cost cotton inventories. These business drivers have direct impacted operations and, ultimately, workers suffered.

Given this background, it is necessary to examine how these evolving forces have reshaped the functioning of cotton spinning mills in Maharashtra and how they have affected the livelihoods of workers who depend on long-term industrial employment.

2. Structural Vulnerabilities in the Cotton Spinning Segment

The first major vulnerability in the cotton spinning sector relates to the price of cotton. Maharashtra historically operated under the Monopoly Cotton Procurement Scheme, which influenced how cotton was purchased and priced across the state. Spinning mills in Maharashtra do not rely only on local cotton. They also procure raw cotton from other major producing states, depending on availability and quality. Profitability in spinning depends heavily on the cost of cotton, which forms the largest share of total production cost.

Cotton is a seasonal commodity. As a business strategy, spinning mills have traditionally purchased large quantities during the peak season and stored them in their godowns for continuous production. Nationally, the price of raw material has always been sensitive to seasonal availability and market expectations. This behaviour is similar to many other mid-sized industries in India that depend on original equipment manufacturers or fluctuating demand for finished or semi-finished goods. In cotton textiles, the link between cotton prices and yarn prices is direct. Any fluctuation in the price of cotton immediately affects the pricing of yarn.

Buyers of yarn operate globally, and their number is limited. In hubs such as Kolhapur, it is common for a single buyer to visit several spinning mills in the same day to negotiate prices. Many mills use identical

machinery and processes, the difference in pricing among mills has historically been small. A significant number of spinning units in the region depend on imported machinery, mainly procured from Switzerland. The workforce structure is also similar across mills. This created a competitive environment where even a small variation in cotton purchasing cost could affect profitability. In such a setting, efficiency of management, supervision quality, and consistent product standards determined which mills could sustain operations.

These vulnerabilities have become more pronounced in recent years. Cotton prices increased sharply in 2021 and 2022 because of lower yield and high global demand (Cotton Corporation of India, 2024). Prices rose again in 2023 after supply shortages in major producing countries. Mills holding large inventories purchased at high domestic prices faced significant exposure when yarn prices remained stagnant. Because yarn pricing is benchmarked to domestic and international cotton markets, mills were unable to pass higher raw-material costs to buyers.

3. Case Study

A Case Study of one spinning mill promoted by a reputed organisation is discussed in this chapter. The presence of the promoters in the cotton yarn trading business has been long-standing, and when nearly 24 spinning mills came up in Kolhapur, the promoters also selected Kolhapur as their preferred location. The operations of the subject spinning mill began around 1995. The plant was originally set up with 25,000 spindles and later expanded to approximately 60,000 spindles. Like other manufacturers, the subject spinning mill soon began facing challenges arising from fluctuating cotton prices.

One major factor influencing cotton pricing was the response of agriculturists. Large numbers of farmers in Maharashtra and neighbouring states depended on cotton cultivation. Whenever cotton prices fell, farmer groups frequently protested or demanded government intervention. To support farmers, the government often imposed import duty on cotton. This pushed domestic mills toward buying cotton at higher domestic prices. However, overseas customers benchmarked yarn prices against global cotton prices. By this time, several countries had developed large spinning capacities, which increased competition in international markets. Indian manufacturers, including the subject spinning mill, were therefore compelled to offer competitive prices even when their raw material costs were higher.

These pressures intensified further during the COVID-19 pandemic. Disruptions in transport, rising costs, and reduced demand weakened financial positions across the sector. Spinning mills were suddenly required to borrow more from banks in order to offer yarn at competitive prices. As the downturn deepened, the subject spinning mill also began experiencing severe financial strain.

The subject spinning mill had a workforce of around 1,000 employees. Approximately 70 percent were from the surrounding villages, while the remaining were migrant workers. The workforce also included a significant number of temporary workers. Across the district, each spinning mill typically employed nearly 250 staff members in managerial and administrative roles. Unions were active in most mills. Historically, unions took advantage of the structure of spinning operations. Mills ran 365 days a year, and production depended on maintaining constant humidity. Even a one-day strike disrupted operations for nearly three days due to yarn breakage, plant cleaning needs, and residual cotton dropping from the ceiling during machine stoppages. Unions often used this vulnerability as a bargaining tool, and management sometimes had to concede to their demands.

In February 2021, the Government imposed an 11 percent import duty on cotton. This immediately increased cotton prices. With imports restricted, domestic cotton became expensive. At the same time, the

selling price of yarn fell below the cost of manufacturing. A large number of spinning mills found this unsustainable and were forced to stop or scale down production. Although mills employing more than 100 workers are legally required to obtain government permission for layoffs or closure, many employers took alternative steps after consulting legal advisers. For the first time, unions and workers recognised the severity of the situation and opted to cooperate to save jobs. At the subject spinning mill, workers voluntarily accepted a 15 percent wage reduction and agreed to work on half shifts. As a result, most workers received only about 50 percent of their normal wages. Migrant workers returned to their home districts, and temporary and contract workers lost their jobs.

The impact extended to the surrounding community. Many local households had invested in accommodation for workers, and they came under financial pressure when rents dropped or workers left. Cooperative banks, which had provided loans to workers and staff, also faced repayment delays. Across Maharashtra, many mills adopted similar cost-saving strategies due to weak export demand and severe mismatches between raw cotton and yarn prices (Cotton Corporation of India, 2024).

Although many spinning mills had insured gratuity obligations under group insurance policies, the financial strain forced employers to stop paying annual premiums. Lapses in coverage made it difficult for mills to meet gratuity payments. The cumulative effect created widespread job insecurity and income instability (Kothari, 2020).

Government policy changes also had significant effects. Most spinning mills held yarn stocks, hoping to sell them when prices improved. Due to sustained pressure from mills, the Government later relaxed import duty and eventually suspended it in August 2025 until December 2025. This led workers to expect immediate resumption of production. However, customers now started demanding yarn at rates of cotton linked to the lower pricing post-suspension cotton prices. Mills holding finished goods made from high-priced cotton would incur substantial losses if they sold yarn at these new benchmark prices. Manufacturers of finished products such as garments, bedsheets, and towels managed to survive by using their integrated units to liquidate stock and benefit from GST concessions during the festive season. Pure spinning mills, including the subject spinning mill, did not have this advantage.

The cumulative impact on the subject spinning mill has been severe. Without further bank funding, at discounted rates unlikely given the mill's balance-sheet position, and without effective government support, the risk of liquidation is significant promoters are fighting may be losing battles. If liquidation occurs, workers are unlikely to receive full statutory dues. A similar pattern is seen across other sectors such as engineering and consumer goods, where mid-sized manufacturing units face market pressures and the working class bears the brunt in similar situation. Courts may sometimes grant relief, but once a case enters insolvency, promoters are not personally liable. Matters move to the National Company Law Tribunal, assets are sold under distress, and new promoters are not required to pay past worker dues. Workers remain unprotected, and there is no dedicated scheme or fund from banks, state or central governments to safeguard their claims.

4. Legal And Policy Gaps in Protecting Labour

The situation faced by the subject spinning mill shows serious limitations in the existing labour-protection framework. When a manufacturing unit continues to operate, even at a loss, workers retain some degree of protection because wages are paid and statutory dues accumulate. Once a company becomes insolvent or proceedings begin before the National Company Law Tribunal, workers lose this security. Under the Insolvency and Bankruptcy Code, workers' dues are recognised, but their claims are only partly prioritised

and are limited by the availability of assets (International Labour Organization, 2020). Older spinning mills have heavily depreciated machinery, limited land value, and high secured borrowings. These factors significantly reduce what can be distributed to workers. Existing legal mechanisms and collective bargaining processes therefore cannot guarantee that workers will recover their statutory dues.

This problem is not unique to the textile industry. Studies on industrial closures in India show that in insolvency situations, workers often receive only a fraction of the compensation owed to them, even when they have spent decades in service. ILO research on labour vulnerability in restructuring processes notes that workers in unorganised and semi-organised manufacturing clusters lack institutional support during closures and often fall into long-term financial insecurity. Similar concerns have been raised in OECD reports on industrial transition in developing economies, which emphasise that insolvency laws tend to protect financial creditors more strongly than labour claims.

The absence of a dedicated protection fund increases the risk. Once insolvency begins, promoters are not personally liable for unpaid dues, and new purchasers are not bound to settle past worker liabilities (Insolvency and Bankruptcy Board of India, 2019). This leaves workers unprotected, even though they are statutory claimants. The situation is made more complex when factories close suddenly, wages stop, and unions have little bargaining power because the employer lacks liquidity.

These structural gaps reveal an imbalance between the interests of creditors, the objective of business survival, and the basic economic security of workers. A stronger legal framework is necessary along with state support to ensure that workers do not become residual claimants in insolvency processes, particularly in industries like textiles that face cyclical distress, raw-material volatility, and global competition.

5. Conclusion: The Future of Worker Protection

The case of the subject spinning mill illustrates how market volatility, policy decisions, and financial distress converge to create significant risks for workers. In the absence of effective legal protections availability of funds, workers experience wage cuts, job loss, and delayed statutory payments. These challenges show the need for a policy framework that balances labour protection with industrial competitiveness. The new Labour Codes offer an opportunity to develop such a framework.

If new codes along with supported mechanism is implemented effectively, these codes can provide stability to workers even when companies face financial distress. International research supports this approach. Comparative studies by the ILO and the World Bank show that social-insurance mechanisms tied to employment, rather than tied to the employer's financial condition, improve both worker protection and industrial flexibility. They also reduce litigation and help maintain industrial peace during downturns. A balanced approach can also strengthen ease of doing business. Employers are often hesitant to modernise or restructure because the cost of compliance during periods of distress becomes prohibitive. Workers resist closures or workforce reductions because they fear losing their accumulated benefits. A predictable insurance-based system for gratuity and worker dues can reduce conflict and encourage transparency. Sectoral stabilisation funds, similar to those used in East Asian textile economies, can support firms during periods of raw-material volatility or global demand shocks. Such funds allow mid-sized industries to preserve employment while adjusting to market conditions.

The textile sector in Maharashtra is an example of how structural vulnerabilities directly affect workers. The long-term sustainability of the industry will depend on integrating labour protection into broader industrial policy. Strengthening the Labour Codes through effective implementation, ensuring that statutory dues are insured, and creating institutional mechanisms to support industries during downturns

will allow the state to promote ease of doing business without compromising worker security. A framework that protects both industry and labour is essential for managing future cycles of economic disruption.

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