

# STATE OF INDIAN TEXTILE INDUSTRY

Volume-1

Quarter ending December 2011

## HIGHLIGHTS

- Adverse macroeconomic indicators and developments show a slowdown in Indian economy.
- INR/USD exchange rate may stabilize at 51-53 range by end of 4<sup>th</sup> quarter FY12 and remain in this range during H1 FY13.
- RBI lifted its interest policy rate 7 times via increase in repo rate from 6.25% to 8.5% during 2011. However, inflation is forecasted to decelerate after Q3 of FY2011-12, which would allow the RBI to lower policy rates eventually.
- Due to dull downstream demand and high costs of production, textiles industry has little incentive to boost production, with many preferring to idle operations until a more favorable environment returns. With downward production trend in all downstream segments of textile sector including apparel since April 2011 month-after-month persistently; we expect full-year textile output across India to contract in 2011-12.
- Poor financial performance across the textile sector.
- Exports of T&C grew by 29% during H1 FY12 over same period of previous year. The growth trends may prevail in Q3FY12 but after that it would have severe fall. Overall T&C\* exports from India could reach at USD 29 billion during fiscal year 2011-12.
- Data Overview: Trade, Price and Indian Textile Industry.



Author: Mr. Ajay Kumar, Economist, CITI.

Email ID- [ajay.kumar@citiindia.com](mailto:ajay.kumar@citiindia.com) or Tel (O) : +91-11- 41519058.

\*Export of all products from Chapters 50 to 63 of HS

➤ **Adverse macroeconomic developments and indicators have set in slowdown in economy.**

Snapshot of Macro Indicators			
Variable	Period & Unit	FY12	FY11
Real GDP	Q2 FY12, % YoY	<b>6.9</b>	<b>7.7</b>
Agriculture	Q2 FY12, % YoY	<b>3.2</b>	<b>3.9</b>
Industry	Q2 FY12, % YoY	<b>3.2</b>	<b>5.1</b>
Services	Q2 FY12, % YoY	<b>9.3</b>	<b>10.0</b>
IIP	Oct, % YoY	<b>-5.1</b>	<b>2.0</b>
IIP	Apr-Oct, % YoY	<b>3.5</b>	<b>8.7</b>
CPI	Oct, % YoY	<b>9.4</b>	<b>10.1</b>
WPI	Jan-Nov, % YoY	<b>9.6</b>	<b>9.6</b>
Exports	Nov-11, % YoY	<b>3.9</b>	<b>10.8</b>
Imports	Nov-11, % YoY	<b>24.6</b>	<b>21.7</b>
Trade Balance	Apr-Nov, USD bn	<b>-116.8</b>	<b>-93.0</b>
Fiscal deficit	Apr-Nov as % of Budget Estimates	<b>85.6</b>	<b>48.9</b>
Policy Rates			
Repo rate	31st Dec, %	<b>8.5</b>	<b>6.25</b>
Reverse repo rate	31st Dec, %	<b>7.5</b>	<b>5.25</b>
CRR	31st Dec, %	<b>6</b>	<b>6</b>

➤ **GDP growth slowed down to 7.3 % during H1 FY12 from 8.6 % in same period of FY11.**

➤ **Inflation pressure remained elevated.**

➤ **The slowdown in GDP growth will make the Indian financial sector more vulnerable.**

➤ **Equity and financial markets continue to be volatile, mainly due to adverse developments abroad.**

➤ **Deceleration in exports has widened the current account deficit.**

➤ **Weak domestic outlook as economy entered the New Year 2012.**

Indian economy grew by 8.3% in fiscal year 2009-10 (FY10) and 8.5% in FY11. GDP growth moderated to 6.9 per cent in Q2 FY12 (Jul-Sep 2011) from 7.7 per cent in Q1FY12 (Apr-Jun 2011) and 8.8 per cent in the corresponding Q2 a year ago. As per RBI report, the deceleration in economic activity in Q2 was mainly on account of a sharp moderation in industrial growth and the weakening trend in growth continues. All components of domestic demand have decelerated. Investment also showed a significant slowdown. Overall, during the first half (April-September) of 2011-12, GDP growth slowed down to 7.3 per cent from 8.6 per cent last year.

As per national accounts data, the industrial sector has not been doing well since the third quarter of previous fiscal year. This is mainly on account of the lower levels of growth in the manufacturing sector. Industrial performance has further deteriorated as reflected in the decline of the index of industrial production (IIP) by 5.1 per cent, year-on-year (YoY), in October 2011. This was mainly due to contraction in manufacturing and mining activities. The contraction was particularly sharp in capital goods with a y-o-y decline of 25.5 per cent, reinforcing the investment decline story emerging from the GDP numbers.

For the April-November period cumulative total exports for the period reached USD 192.7 billion, registering a growth of 33.2% YoY. Total imports reached USD 309.5 billion, up by 30.2% YoY. However in the context of the uncertainty and slow down in the US and EU markets which are our major export destinations, the growth momentum in exports is likely to come down. Already merchandise exports growth decelerated sharply to 3.8 per cent y-o-y in November from an average of 40.6 per cent in the first half of 2011-12. As imports moderated less than exports, the trade deficit widened, putting a pressure on the current account. For the April-November period cumulative trade deficit stood at USD 116.8 billion as against USD 93.0 billion in the same

## Exchange Rate- Rupee Depreciation

Average monthly Exchange rate -₹/\$			
	2010	2011	YoY % change
Jan	45.93	45.39	(1.2)
Feb	46.33	45.44	(1.9)
Mar	45.50	44.99	(1.1)
Apr	44.50	44.37	(0.3)
May	45.80	44.90	(2.0)
Jun	46.56	44.85	(3.7)
Jul	46.84	44.42	(5.2)
Aug	46.57	45.28	(2.8)
Sep	46.06	47.64	3.4
Oct	44.41	49.26	10.9
Nov	45.02	50.84	12.9
Dec	45.16	52.67	16.6

Note: Negative (brackets) numbers show appreciation in INR and positive nos. for depreciation in last column.  
Source: RBI

period last year. This combined with rebalancing of global portfolios by foreign institutional investors and the tendency of exporters to defer repatriating their export earnings, would keep significant pressure on the rupee (depreciated). Sharp rupee depreciation has begun to impact the Indian economy through various channels.

### Exchange Rate- INR/USD (₹/\$)

**Volatility factor-** The INR/USD (₹/\$) exchange rate is now hovering in the range of 52-54. There has been around 18% of depreciation of rupee in last five months. Rupee has seen the highest volatility in its exchange rate with USD. It has a depreciation of 23% if we compare two spot rates of 43.95 and 54.3, dated on 27<sup>th</sup> July and 15<sup>th</sup> December respectively during 2011. Similar depreciations are being also observed with Euro. Since major trade bills are dollar denominated; so focused more on INR/USD exchange rate.

Average monthly exchange rate -₹/€			
	2010	2011	YoY % change
Jan	65.71	60.53	(7.9)
Feb	63.42	62.09	(2.1)
Mar	61.76	63.03	2.1
Apr	59.66	64.23	7.7
May	57.65	64.48	11.8
Jun	56.90	64.54	13.4
Jul	59.76	63.46	6.2
Aug	60.13	64.94	8.0
Sep	60.08	65.50	9.0
Oct	61.71	67.47	9.3
Nov	61.49	68.90	12.1
Dec	59.68	69.31	16.1

Source: RBI

➤ **The depreciation has got support from the fact that preferences in policies are shifting away from RBI policy interventions in currency market from 2007 onward, which is a part of further economic liberalization in India.**

**Macroeconomic factors-** Domestic factors like large scale purchases (through imports) of gold, the rising external funding gap for corporate and the sluggish pace of economy growth have influenced weakening of rupee.

Gold purchases now comprise India's substantial imports after oil. This diversion of household savings from financial to physical assets is in turn limiting the quantum of funds available to the corporate sector. Corporate sector has costly dollar denominated funds. Given that the bulk of portfolio inflows into India are equity related, they tend to be pro-cyclical with growth. With slow down in Indian economy growth, these funds flow are naturally less likely to come in. Since August 2011, the global equity markets are in turmoil. Year-to-date (YTD January-September) portfolio flows have only been USD 6 billion compared with USD 37 billion in full year 2010. So, if pace of growth does not pick up in next quarters the foreign capital flows could remain low and weakening rupee. The average monthly trade deficit has increased in size from around USD 8 billion in FY11 to around USD 14 billion in FY12 so far. Capital inflows, which are used to finance the current account deficit, have seen a

- **A similar rupee (INR) depreciation in the crisis of 2008 (after September 2008) that served India well.**
- **Global risk aversion and deceleration in domestic growth affecting capital inflows.**
- **Repayment of external commercial borrowings has become more expensive.**
- **If Eurozone fails to implement comprehensive measures, it may put risk of further Rupee depreciations.**
- **RBI's interventions to check speculation saw the rupee stability, despite the high volatility and upside risk for depreciation due to foreign fund redemptions and continued high imports bills.**
- **External debt redemptions would make the INR depreciate more if global financial conditions continue to remain unsupportive.**
- **INR/USD exchange rate may stabilize at 51-53 range by end of 4<sup>th</sup> quarter 2011-12 and remain in this range in H1-2012-13.**
- **The upcoming external debt redemptions (USD 317 billion by end of June 2012) are likely to put pressure on Rupee.**

Components	Short-term Up to 1 year	Long-term			Total
		1 to 2 years	2 to 3 years	More than 3 years	
Sovereign Debt (long-term)	5	5.3	5.4	60.1	<b>75.8</b>
External Commercial Borrowings	20.3	18.2	15.1	66.2	<b>119.8</b>
NRI deposits	43.4	5.5	2.4	1.6	<b>52.9</b>
Short-term Debt (original maturity)	68.5	0	0	0	<b>68.5</b>
<b>Total</b>	<b>137.2</b>	<b>29</b>	<b>22.9</b>	<b>127.9</b>	<b>317</b>

Source: RBI

substantial reduction in magnitude as global risk aversion remains elevated due to debt concerns in developed markets. When times are bad, the rupee would depreciate as is happening this time around. We had a similar depreciation in the crisis of 2008 (after September 2008) that served India well. Similar INR depreciation has accompanied the present global gloom. The rupee depreciation drives up profit rates of all Indian exports and thus bolsters employment and economy to some extent.

**Stability factors and risks-** RBI's intervention to check speculation saw some stability in rupee. Despite the high volatility and upside risk for depreciation due to foreign fund redemption and continued high imports bills, it may stabilize at 51-53 for a USD.

Several other measures taken by RBI have also helped to curb speculative activity to mitigate the high volatilities in INR. Cancellations of forward contracts have been disallowed for corporate and FIIs.

While measures to increase dollar (net foreign currencies) inflows will take time to have any impact on INR, the crackdown on speculative activity by the RBI will be somewhat useful in softening the exchange rate volatility momentum. On the other hand, the contagion effect from debt concerns in Europe could possibly intensify with a disorderly exit by one of the affected members and thereby provide substantial downside risks. RBI may consider dollar windows for oil companies. This would help in increasing the effectiveness of intervention. Additionally, the measures related to ECB and FII debt can be relaxed further. The upcoming external debt redemptions (USD 317 billion by end of June 2012) are likely to put pressure on Rupee if global financial conditions continue to remain unsupportive. **We now expect INR/USD in range of 51-53 till Mar-12.**

**Inflation in India**

Inflation as measured by Wholesale Price index (WPI) has remained sticky above 9 % during 2011. The inflationary pressure in first half of the year was solely due to domestic

Inflation (WPI) remained high in 2011					
	2010	2011		2010	2011
<b>Jan</b>	8.7	9.5	<b>Jul</b>	10.0	9.4
<b>Feb</b>	9.7	9.5	<b>Aug</b>	8.9	9.8
<b>Mar</b>	10.4	9.7	<b>Sep</b>	9.0	10.0
<b>Apr</b>	10.9	9.7	<b>Oct</b>	9.1	9.7
<b>May</b>	10.5	9.6	<b>Nov</b>	8.2	9.1
<b>Jun</b>	10.3	9.5	<b>Dec</b>	9.4	NA

➤ **RBI lifted its interest policy rate 7 times via increase in repo rate from 6.25% to 8.5% during 2011.**

Textiles Inflation came down in 2011 (% Change, YoY)					
	2010	2011		2010	2011
Jan	6.5	13.2	Jul	10.1	11.4
Feb	8.3	15.6	Aug	10.4	9.0
Mar	9.1	18.3	Sep	9.8	8.6
Apr	11.3	16.9	Oct	10.1	7.6
May	11.3	16.0	Nov	11.7	6.6
Jun	10.2	14.5	Dec	12.3	NA

Source: CSO

➤ **It is forecasted by many economists and policy analysts that inflation in the economy will decelerate after Q3 of FY2011-12, which would allow the RBI to lower policy rates eventually.**

➤ **There are price rise and exchange rate benefits in major competing countries for textile and apparel exports.**

Consumer prices and currency changes in major T&C exporting countries		
	Consumer Price Change	Currency Change vs. US\$
	Sep 11 vs. Sep 10	Jan-Sep 11
Bangladesh	12.0%	-6.0%
China	6.1%	3.0%
India (1)	9.7%	-9.0%
Pakistan	10.5%	-2.0%
Turkey	6.2%	-16.0%
Vietnam	22.4%	-7.0%

(1) WPI Source: Economic Times

demand factors while it has emanated from multiple sources in second half of the year. The most important external factor was the global rise in commodity prices and liquidity enhancing policies adopted by central banks in industrialized nations.

These factors are moderating now with slowdown seizing the demand factors. There has been some moderation in food inflation, that is, it has come down from its pick of 20% in February 2011 to below 5% by December 2011, thanks to supply side easiness with fresh arrivals of agricultural outputs in market. But, the sources of inflation have now switched to non-food (called core inflation); which is worse as it could hamper the consumption demand for manufactured goods in domestic market. Persistently high inflation is the main cause of concern for a stable and business conducive macroeconomic scenario in India. Higher inflation also brings higher inflationary expectations. Trends in inflationary expectations are conjectured with high uncertainties and wild guesses in business process. That makes it difficult to envision real interest rates and prices. However, inflation is forecasted to decelerate after Q3 of FY2011-12, which would allow the RBI to lower policy rates eventually.

**Price rise and exchange rates in competing countries for textile and apparel exports**

China as a leader in world clothing market is facing the risk of currency appreciation and a continuous rise in production cost despite manageable domestic inflation rates. All other major clothing exporters like Bangladesh, Vietnam, India and Turkey also have increasing production costs in cloths making and high inflations in domestic consumer prices. There is already an increase in garment pricing across the geography. However, currency depreciations in all these countries vis-à-vis US dollar, could help to further compete with China in US and EU apparel markets as major suppliers. US and EU buyers may be tempted to partly shift orders from China to Bangladesh, Vietnam and India in latter part of 2011 and also in 2012.

➤ **US were in a recovery mode during 2011 technically, but EU progressed towards a technical recession.**

➤ **The world's recovery from recession is slowing, according to *The Economist's* measure of global GDP, based on 52 countries. The third-quarter growth expanded by 3.6% across the world, down by 1.5% from the same period in 2010.**

### **Policy Decisions of Government of India (GOI) in 3<sup>rd</sup> quarter of FY12**

Some benefits were announced under foreign trade policy on 13<sup>th</sup> October 2011, which includes Special Bonus Benefit Scheme (SBBS), Special Focus Market Scheme (SFMS), Focus Product Scheme (FPS), Market Linked Focus Product Scheme (MLFPS), Support to Apparel Sector under MLFPS, introduction of Towns of Export Excellence, EDI initiatives and reduction in transaction cost with emphasis on procedural simplification, and 'Niryat Bandhu' - A scheme for International Business Mentoring.

### **Global scenario and Outlook**

The lingering Euro Zone crisis and less than expected demand recovery in US are resulting in an uncertain external economic environment. Following the turmoil in equity markets, which started in August 2011, growth forecasts for the global economy and for high-income countries in particular have been revised downwards. The World Bank expects world GDP growth to reach 2.8 % and 3.2 % in 2011 and 2012, respectively, a downward revision of 0.4 per centage points in both years from its previous forecast of July 2011. Increased strains in financial markets on the back of growing concerns over euro area sovereign debt, limited monetary and fiscal policy impact and manoeuvrability of many central banks including RBI, high unemployment rates, slowdown of manufacturing activities in many countries including China and India, weak housing markets and elevated oil prices are all adverse factors. Weakening in all components of domestic demand in many economies including India are going to intensify the slowdown. India's GDP growth projections are being lowered down to 7% for fiscal year 2011-12 and still lower for FY13. Indian economy can be adversely impacted through slowdown in its exports markets.

<b>Monthly trend in T&amp;C Production Growth</b>			
<b>(%, YoY)</b>	<b>Textiles</b>	<b>Apparel</b>	<b>T&amp;C (overall)</b>
Apr'2010	3.6	-8.0	-0.5
May'2010	6.3	14.2	8.8
Jun'2010	4.4	8.5	5.7
Jul'2010	3.5	1.6	2.9
Aug'2010	8.7	13.2	10.0
Sep'2010	9.4	1.5	7.1
Oct'2010	11.8	15.4	12.8
Nov'2010	0.5	-3.0	-0.5
Dec'2010	5.1	-1.0	2.9
Jan'2011	14.6	-1.0	9.2
Feb'2011	8.5	0.6	5.6
Mar'2011	3.9	12.4	6.8
Apr'2011	-0.4	0.5	-0.1
May'2011	-2.7	0.2	-1.7
Jun'2011	-2.3	-4.9	-3.2
Jul'2011	-1.6	-7.0	-3.4
Aug'2011	-1.8	-8.1	-3.8
Sep'2011	-1.7	-6.9	-3.4
Oct'2011	-3.2	-6.8	-4.3

➤ **The T&C production growth of 5.7% during FY11 was better in comparison to previous growth rates of 4.7% and of negative (-) 5.9% during FY10 and FY09 respectively under Index of Industrial Production (IIP) data compiled by Central Statistical Organisation (CSO).**

<b>T&amp;C in Index of Industrial Production (IIP): Growth rates (%, YoY)</b>			
		Cumulative Apr-Oct	
	<b>FY 10-11</b>	<b>2010-11</b>	<b>2011-12</b>
<b>Textiles</b>	6.7	6.8	-3.2
<b>Apparel</b>	3.7	5.9	-6.8
<b>T&amp;C Sector</b>	5.7	6.5	-4.3

Source: CSO

➤ **T&C production could be revived by bringing stability in input prices for textiles value added products with prudent domestic and exports policies.**

**Textiles Production Growth: October 2011**

Overall textiles and apparel production in index of industrial production (IIP) had increased by 5.7% during Fiscal Year 2010-11(FY11) over FY10. The manufacturing of cotton fibre based textile products, which constitutes around 60% of total textile products and apparel in the country, has nosedived in recent months after a trail of moderation in production growth since April 2011. This loss in year-to-date output virtually ensures FY12 textiles production will shrink. MMF/Wool/Silk textiles and Jute textiles have been also showing dwindling growth rates in their productions.

During Apr-Jun 2011 (Q1 of FY12), spinners had to resort to production cut in mills to clear off huge accumulated inventories, which they were not able to export due to quantitative restrictions on yarn exports in Q4 FY11. Domestic demand for cotton yarn is still depressed and growth in exports market is moderate. The double digit growth in cotton yarn exports in value terms, year-on-year (YoY) basis, have been found due to increase in prices across international markets. But, the poor demand in domestic market because of price spirals in cotton products had dwindled away the production growth during Q1 FY12. Most of the mills are struggling with low capacity utilization since then. In subsequent months of year 2011, the tightening of interest rates, insufficient working capitals, low sales with downward price pressures and accumulated huge costly inventories were major factors hindered production for many textiles companies. Again, poor demand in domestic and exports market for textile products are going to affect the production recovery. And it could go from bad to worse situation if stability in input prices for textiles value added products is not ensured with prudent domestic and exports policy measures on fibres and exports assistance for textiles products.

Production of Man-made Fibre and Filaments in Mn kg					
Period	Fibre		MM filament yarn		
Oct'2010	112		132		
Oct'2011	107		128		
% change	<b>-4.5</b>		<b>-3.0</b>		
Apr-Oct'10	728		910		
Apr-Oct'11	717		838		
% change	<b>-1.5</b>		<b>-7.9</b>		
2009-10	1268		1522		
2010-11	1285		1551		
% change	<b>1.3</b>		<b>1.9</b>		
Production of Yarn (Mn kg)					
Period	Cotton yarn	Blended & Non-cotton yarn	Total Spun Yarn		
Oct'2010	301	109	410		
Oct'2011	241	99	340		
% change	<b>-19.9</b>	<b>-9.2</b>	<b>-17.1</b>		
Apr-Oct'10	2,044	694	2,738		
Apr-Oct'11	1,785	730	2,515		
% change	<b>-12.7</b>	<b>5.2</b>	<b>-8.1</b>		
2009-10	3079	1114	4193		
2010-11	3469	1214	4683		
% change	<b>12.7</b>	<b>9.0</b>	<b>11.7</b>		
Production of Fabrics/Cloth (Mn Sq.mtr)					
Period	Mill sector	Hand loom	Power loom	Hosiery	Grand Total
Oct'2010	180	631	3,347	1,298	5,456
Oct'2011	198	560	2942	931	4631
% change	<b>10.0</b>	<b>-11.3</b>	<b>-12.1</b>	<b>-28.3</b>	<b>-15.1</b>
Apr-Oct'10	1,280	3,951	22,439	8,799	36,469
Apr-Oct'11	1,339	4,069	21,454	7,232	34,094
% change	<b>4.6</b>	<b>3.0</b>	<b>-4.4</b>	<b>-17.8</b>	<b>-6.5</b>
2009-10	2016	6806	36997	13702	59521
2010-11	2205	6903	37516	14372	60996
% change	<b>9.4</b>	<b>1.4</b>	<b>1.4</b>	<b>4.9</b>	<b>2.5</b>

➤ **The exports and domestic supply of apparels on elevated prices due to input (cotton) costs escalations in comparisons to previous periods have been reflected in higher growth in value terms , year-on-year basis, but not in volume terms and hence stagnant or decline in productions.**

Fabrics production also contracted as destruction of demand had taken place by imposition of excise duty burden on garments and made-ups in central budget for FY12. The apparel segment first saw contraction in production in November 2010, thanks to cost escalations due to high input prices and low demand in domestic markets during third quarter of FY11. The situation improved a little bit in last quarter of FY11. But, again it worsened by closure of many garment units in *Tripur* on environmental issues. During the period, imposition of excise duties, withdrawal of exports incentives and imposition of restrictions on cotton yarn exports by government have caused the domestic demand destructions as well as production halts. The exports restrictions ultimately hampered the business relations with overseas markets.

Production of apparel did not have positive growth rates since April 2011. During first and second quarters of FY12, increasing interest costs and elevated input costs in apparel manufacturing hindered the production growth. High priced apparel in domestic market faced slow demand/sales growth and excise duties on braded cloths worsened the situation. Apparel manufacturers kept themselves afloat, thanks to better exports performance in international markets during first three quarters of current fiscal year (FY12). In fact, there are apparel exports realizations with higher prices as all suppliers have increased their prices in world market. But, these have not helped in augmentation in apparel volume much and hence productions. Now exports growth are lowering down or can diminish away as major markets of Indian apparel exports - EU and US are lingering with economic uncertainties and perils. On domestic front, there are not realizations in high sales volume despite discount offers floated by many retailers.

**Man-made fiber (MMF) Industry**

The man-made fiber industry had weak sales growth, merely at 5.0 % during FY11, when other segments of textiles were doing relatively better. However, despite the low sales, profit margin in this segment was higher at 7.5% during the year. There has been slowdown in financial performance for the MMF industry during Q1 & Q2 of FY12, but overall profit margins as percentage of income are in positive territory. Nearly one-third of the MMF industry's expenses are dollar-denominated, which is mainly spent on importing its petro/crude oil based inputs. Therefore, with depreciated rupee and upward trend in petrochemical prices the profit margin could remain affected despite the revival in sales growth in domestic market during forthcoming quarters.

**Yarn Industry**

Fiscal Year 2010-11 (FY11) was good in terms of sales/income growth and profitability for spinning industries. Data for spinning industries, shown by Centre for Monitoring Indian Economy (CMIE) under its industry analysis report, demonstrated that income/sales growth during FY11 was substantially high (around 32%) over previous year. The industry saw profit margin growth of 4.6% during the year. However, the spinning industry plunged into losses during Q1 FY12 due to a sharp rise in production costs, high cost inventories carried from last quarter of FY11 (thanks to yarn exports restrictions) and free fall in yarn prices. The industry was forced to low capacity utilization on account of weak domestic demand. More than 50% units incurred net losses during Q1FY12. Desperate spinners running out of working capital had to sell cotton yarn made out of expensive cotton at very low prices. Majority of spinners have reported net losses in their balance sheets and the overall segment has shown negative PAT to income ratios. Improvement in sales coupled with the waning impact of high-priced cotton inventory stocks during Q2 FY12 has marginally lowered the losses in comparison to Q1 FY12. But, many firms in the industry shall remain in red on profitability for third quarter also.

Profitability in MMF Industry		
	Sales/Income % Y-O-Y, growth	PAT/Income % Ratio, Margin
FY2009-10	4.6	4.1
<b>FY2010-11</b>	<b>5.0</b>	<b>7.5</b>
Q1 2011-12	12.5	5.9
Q2 2011-12	18.3	3.5
Q3 2011-12 (F)	16	1.7
(F)- Forecast Source: CITI estimates from CMIE data		

➤ **Man-made fibre production recorded decrease by about 5% and filament yarn production recorded a decrease of about 3% during Oct. 2011. Both have contraction of 2% and 8% respectively during cumulative period of Apr-Oct2011 over same months of previous year.**

Profitability in Spinning Industry		
	Sales (Income) % Y-O-Y, growth	PAT/Income % Ratio, Margin
FY2009-10	14.2	1.1
<b>FY2010-11</b>	<b>31.8</b>	<b>4.6</b>
Q1 2011-12	13.4	-8.7
Q2 2011-12	18	-8.5
Q3 2011-12 (F)	17	-7.1
(F)- Forecast Source: CITI estimates from CMIE data		

➤ **Domestic yarn production fell for the seventh consecutive month in October 2011. Cotton yarn production decreased by 20% during Oct. 11 and by 13% during April- Oct. 2011. Between dull downstream demand and unattractive yarn prices, mills have little incentive to boost spinning, with many preferring to idle operations until a more favorable environment returns. As a result, we expect full-year textile output across India to contract in FY12.**

➤ **Cloth production by handloom, powerloom and hosiery segment decreased by 11%, 12% and 28% respectively during Oct. 2011. During April- Oct. 2011, production by handlooms increased by 3% and powerloom and hosiery sectors decreased by 4%, 18%. Production has increased by 10% during Oct. 2011 and by 5% during Apr-Oct.2011 in mill sector. The total cloth production decreased by about 15% during Oct. 2011 and by 7% during Apr-Oct. 2011.**

The industry is expected to have relatively high sales realization on account of festive demand and because of high exports value realization with depreciated rupees in third quarter and onward. In fact, foreign currencies spending for spinners are much lower than earnings. So, depreciation in the rupee coupled with stable industry supportive exports policies and incentives to tide the exports uncertainties in major yarn markets are likely to improve the profit margin during forthcoming quarters and may compensate some of the losses of first three quarters to avoid heavy net losses for many spinners.

### **Fabrics/ Clothing Industry**

Growth in production and sales of fabrics by mills is higher than any other segment of fabric producers. Sales/income growth during FY11 was around 32% and profit realization was 3.9% on income value by clothing industry. During Q1 FY12, though the sales further grew up by more than 32%, the profit margin came down at 2.5% due to high rise in raw material costs and interest outgoes. The sales value went up because of upward pricing as high input cost was factored in. Overall increase in sales with positive PAT- income ratio was observed despite a moderation in sales during second quarter of FY12. The high increase in sales momentum is expect to continue with marginal improvement in profit margins on account of fall in yarn prices for 3<sup>rd</sup> quarter. During the quarter, the festive demands and favorable exchange rate for exporters will be driving the sales and profitability. But, uncertain global market conditions and recovery in input prices could affect the profit margin in 4<sup>th</sup> quarter. For example- the yarn prices are not going down; on the contrary they will stay stronger because of high cotton prices and demand factors. The rupee is also weakening due to which Indian yarn exports are able to compete in the international markets and the demand is good during third quarter because of low production of yarn in India and internationally.

<b>Profitability in Clothing/Fabrics Industry</b>		
	Sales or Income	PAT/Income
	% Y-O-Y, growth	% Ratio, Margin
FY2009-10	20.7	1.9
FY2010-11	32	3.9
Q1 2011-12	32.3	2.5
Q2 2011-12	24.5	2.1
Q3 2011-12 (F)	32	2.4

(F)- Forecast Source: CITI estimates from CMIE data

➤ **The sales value of fabrics and apparel went up in FY12 because of upward pricing with high input cost factored in.**

<b>Production of Fabrics/Cloth (Mn Sq.mtr)</b>				
Period	Cotton	Blended	100% Non Cotton	Grand Total
Apr-Oct'10	18,592	4,819	13,059	36,470
Apr-Oct'11	17,214	4,836	12,044	34,094
<b>% change</b>	<b>-7.4</b>	<b>0.4</b>	<b>-7.8</b>	<b>-6.5</b>
2009-10	28914	7767	22840	59521
2010-11	31742	8278	21710	61730
<b>% change</b>	<b>9.8</b>	<b>6.6</b>	<b>-4.9</b>	<b>3.7</b>

➤ **Though there was some moderation in fabrics sales during Q2 for mill segment, overall increase in sales with positive PAT-income ratio was observed.**

### Profitability in Apparel Industry

	Sales/Income	PAT/Income
	% Y-O-Y, growth	% Ratio, Margin
FY2009-10	14.4	4.9
FY2010-11	5.1	1.3
Q1 2011-12	3.5	2.6
Q2 2011-12	3.2	1.9
Q3 2011-12 (F)	5.2	2

(F)- Forecast Source: CITI estimates from CMIE data

➤ **Exports of T&C grew by 29% during H1 FY12 over same period of previous year. The growth trends in exports of textiles products may prevail in Q3FY12, but after that it may have severe fall. Overall T&C\* exports from India could reach USD 29 billion during FY12.**

### T&C exports to top-10 destinations

India's Exports of Textile Products (US \$ Million)				
		Apr-Sep 2010-11	Apr-Sep 2011-12	% change
1	US	1,906	2,205	15.7
2	U Arab Emts	780.4	974.8	24.9
3	UK	668.0	894.3	33.9
4	Germany	553.1	775.5	40.2
5	France	315.7	433.3	37.3
6	Italy	284.1	413.4	45.5
7	Bangladesh	359.0	402.7	12.2
8	Spain	291.9	343.3	17.6
9	Netherland	196.7	297.9	51.4
10	Belgium	176.5	254.9	44.4
<b>Top ten countries</b>		<b>5,531</b>	<b>6,995</b>	<b>26.5</b>
<b>Others</b>		<b>3,987</b>	<b>5,275</b>	<b>32.3</b>
<b>Textiles Exports</b>		<b>9,518</b>	<b>12,270</b>	<b>28.9</b>

Source: DGCI&S

➤ **Key Asian currencies (except Yuan) dramatically dropped against both the dollar and the euro in 2011, offering a way to limit the rise in clothing prices in 2012.**

### Apparel Industry

Apparel industry had performed better in Fy10 on account of good recovery of demand in exports market after crisis of 2008-09 and robust demand in domestic market. But, during FY11 when other segments, especially yarns and fabrics, were doing better, this segment had shown moderation in profit margin. In fact, the positive profit margins of apparel industry during first two quarters of FY11 were nullified by subsequent erosion in profits during third and fourth quarters of the year and overall profit margin was very low at 1.3% of incomes. The sector lamented price spirals in raw material and weakening sales in domestic markets during later quarters of FY11 due to cotton price escalations. Apparel industry saw increase in their profit margin during Q1 of FY12, which again moderated during Q2 due to rise in input prices and interest costs. During third quarter of 2011-12, the sales of apparel in domestic market as well as foreign market are likely to increase substantially due to festive seasons and favorable exchange rate of rupee.

### T&C\* Exports and Outlook

During first six months of fiscal year 2011-12 (H1 FY12), exports of textiles and apparel from India have grown by around 29%. Double digit growth was observed in its major markets- US, most of the countries of EU and UAE. Textile products exports to US increased by 15.7% and this country also occupied number one ranking with around 18% share in textile products exports. In top five destinations in euro region namely, UK, Germany, France, Italy, Spain and Netherland, exports have grown with double digit rates during initial six months of current fiscal year. It is seen that this growth in value terms has support of high unit value realization, thanks to acceptance of sales on elevated prices on account of cost escalations of inputs (cotton) in previous periods. US is showing a marginal recovery in recent times, orders from Europe have gone down significantly. This

Imports of T&C in EU-27 (Million Euros)				
		Jan.-Sep. 2010	Jan.-Sep. 2011	% chge'11
	<b>EU_Extra</b>	<b>63,521</b>	<b>73,491</b>	<b>15.7</b>
1	China	26,570	29,804	12.2
2	Turkey	8,342	9,562	14.6
3	Bangladesh	4,559	6,289	37.9
<b>4</b>	<b>India</b>	<b>5,064</b>	<b>5,986</b>	<b>18.2</b>
5	Pakistan	1,944	2,508	29
6	Tunisia	1,951	2,111	8.2
7	Vietnam	1,142	1,494	30.8

Source: Euostat

➤ **The imports of T&C in EU from extra-EU grew by around 16% during Jan-Sep. The festive seasons sales and demand could sustain the growth trend during last quarter of 2011 also. Textiles imports in EU are expected to grow by 22% and apparel by 16.5% during 2011 from India.**

#### **T&C imports in US from top-10**

Imports of T&C in US (Million US \$)				
		Jan-Oct 2010	Jan-Oct 2011	% chge
1	China	32,610	34,736	6.5
2	Vietnam	5,263	6,142	16.7
<b>3</b>	<b>India</b>	<b>4,560</b>	<b>5,088</b>	<b>11.6</b>
4	Indonesia	3,933	4,565	16.1
5	Mexico	3,729	4,020	7.8
6	Bangladesh	3,397	4,055	19.4
7	Pakistan	2,545	2,894	13.7
8	Honduras	1,987	2,226	12
9	Cambodia	1,839	2,213	20.3
10	Salvador	1,404	1,506	7.3
	Others	17,282	19,061	10.3
	<b>WORLD</b>	<b>78,549</b>	<b>86,506</b>	<b>10.1</b>

Source: Otexa

➤ **The imports of T&C\* in US grew by around 10% during Jan-Oct. Since Nov-Dec demand for imports is sustained by festive season sales, the overall imports growth could be around 10.5%, with apparel imports from India growing by 9% and non-apparel by 16%.**

quarter of September-December (Q3 FY12) coincides with the festive seasons . There is going to be marginal impact due to rupee depreciation as it would hold the yarn, fabrics, made-ups and RMG prices in rupee terms (after some moderation of prices in dollar terms) and help these goods to be more competitive in international markets. Although key Asian currencies dramatically dropped against both dollar and euro in later part of 2011, offering a way to limit the rise in clothing prices in 2012, there could be moderation of growth in value terms further in these markets. The growth trends in exports of textiles products may prevail in Q3 FY12 after that it may have severe fall. Overall T&C exports could reach USD 29 billion\* during FY2011-12. Exports during Q4 FY12 could see a sharp dent in the demand as month-after-month there are declines in the apparel sales in EU and US as these countries are getting into economic slowdown with economic uncertainties and perils as the year progresses in 2012.

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Month end prices of Textiles Items during the year 2011														
Items	Unit	Avg.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Raw Cotton	Rs./Kg.	Wt. Avg.	125.9	156.9	160.9	140.6	112.9	97.1	84.0	100.7	106.0	96.8	94.3	90.0
Bengal Deshi(Fine)	Rs./Kg.	Avg.	112.7	140.9	143.6	138.3	126.8	124.9	120.4	143.0	142.9	104.9	103.2	95.6
Medium(20.5-24.5)	Rs./Kg.	Avg.	111.4	147.3	149.5	125.8	97.1	80.8	68.1	84.8	90.9	81.6	78.1	75.6
Medium Long (25 to 27mm)	Rs./Kg.	Avg.	126.3	155.4	156.9	132.5	93.5	79.9	74.2	91.2	99.4	93.5	N.A.	N.A.
Long(27.5 to 32mm)	Rs./Kg.	Avg.	131.9	158.7	167.5	148.2	122.8	103.9	82.4	103.2	109.5	105.5	101.5	96.0
Extra Long(32.5 & Above)	Rs./Kg.	Avg.	167.8	201.8	206.0	192.7	179.3	156.8	139.7	138.8	135.1	126.6	121.8	114.2
Yarn(Hanks)	Rs./Kg.	Wt. Avg.	246.3	268.9	265.5	276.4	265.9	256.3	209.9	172.5	172.5	172.5	172.5	172.5
Yarn(Cones)	Rs./Kg.	Wt. Avg.	200.6	208.7	208.5	208.3	181.7	166.3	157.2	147.7	152.3	148.4	155.9	156.7
Yarn(Hosiery Cones)	Rs./Kg.	Avg.	221.8	251.8	257.8	245.8	219.8	178.3	168.3	168.0	190.2	199.0	199.0	197.0
Poly. Vis. Blended Yarn	Rs./Kg.	Avg.	194.8	217.7	223.5	205.8	201.0	183.6	173.2	167.4	175.9	175.9	171.0	171.0
Poly. Cott. Blended Yarn	Rs./Kg.	Avg.	182.5	205.5	211.5	196.9	200.0	195.5	198.3	185.0	192.3	192.3	189.3	189.3
Viscose staple fibre	Rs./Kg.	Avg.	128.0	128.0	128.0	128.0	175.4	171.0	171.0	171.0	171.0	171.0	171.0	171.0
Polyster staple fibre	Rs./Kg.	Avg.	96.7	100.4	108.3	118.7	119.3	107.2	103.4	103.3	98.9	99.4	104.6	100.3
Viscose Filament Yarn	Rs./Kg.	Wt. Avg.	321.2	321.2	341.7	357.2	367.5	369.5	365.4	365.4	365.4	358.2	358.2	358.2
Nylon Filament Yarn	Rs./Kg.	Wt. Avg.	N.A.	N.A.	N.A.	N.A.	N.A.	338.2	338.2	338.2	338.2	338.2	338.2	338.2
Texturised Yarn	Rs./Kg.	Avg.	123.2	127.9	128.9	116.6	105.7	108.3	110.1	110.1	114.6	111.2	109.2	108.5
Merino Wool (Imported)	Rs./Kg.	Avg.	N.A.	N.A.	N.A.	N.A.	N.A.	674.0	693.0	N.A.	698.1	746.5	727.6	755.8
Woolen Yarn	Rs./Kg.	Avg.	N.A.	N.A.	388.5	388.5	388.5	388.5	388.5	388.5	388.5	388.5	388.5	388.5
Carpet Yarn (Fine)	Rs./Kg.	Avg.	N.A.	N.A.	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0

Note: The Data shown for Dec. month is of prices for week ending on 17th Dec,2011 Source : O/o TXC;O/o JC, Central silk Board, N.A.- Not Available

Shankar-6 Prices (Rs per candy monthly average of spot rates)													
Year	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Yr Avg
2008-09	23,520	22,233	21,796	21,524	20,586	20,740	22,421	23,609	23,170	23,840	23,410	22,460	22,442
2009-10	23,205	24,955	26,843	26,722	26,452	27,957	28,277	28,770	29,422	29,388	31,792	37,205	28,416
2010-11	40,543	43,832	41,733	44,796	55,680	59,700	57,353	46,200	41,458	33,567	35,558	39,439	44,988
2011-12	39,129	37,546	34,677										37,117

  

Cotlook A Index (Monthly Average in US Cents per pounds(lbs) )													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr Avg
2009	57.7	55.23	51.5	56.67	61.95	61.4	64.79	64.26	64.07	66.82	71.82	76.8	62.75
2010	77.39	80.05	85.8	88.09	90.07	93.04	93.04	90.35	104.73	126.55	155.47	168.04	104.39
2011	178.93	213.16	229.67	216.62	165.52	167.16	NQ	114.1	116.88	110.61	104.68	95.45	161.73

NQ-not quoted

Source: Cotton Association of India and Cotlook

Indian Textile Industry - Overview							As on Nov or Apr-Nov 2011##
Item	Unit	2000-01	2005-06	2008-09	2009-10	2010-11*	
<b>Textile Mills</b>							
Spinning Mills (Non-SSI)	No.	1,565	1,570	1,653	1,673	1,757	1,756
Composite Mills (Non-SSI)	No.	281	210	177	180	183	190
<b>Sub Total</b>	<b>No.</b>	<b>1,846</b>	<b>1,780</b>	<b>1,830</b>	<b>1,853</b>	<b>1,940</b>	<b>1,946</b>
Exclusive Weaving Mills	No.	203	204	184	183	174	171
Spinning Mills (SSI)	No.	996	1,173	1,247	1,260	1,333	1,326
Powerloom Units	Lakh No.	3.74	4.34	4.94	4.99	5.11	5.10
<b>Capacity Installed</b>							
Spindles (SSI + Non SSI)	Mn. No	37.91	37.51	41.34	42.04	47.57	48.03
Rotors (SSI + Non SSI)	Lakh No.	4.54	5.20	6.59	6.75	7.49	7.61
Looms (Organised Sector)	Lakh No.	1.40	0.92	0.57	0.57	0.52	0.52
Powerloom	Lakh No.	16.62	19.44	22.05	22.46	22.91	22.98
Handloom	Lakh No.	38.91	38.91	38.91	38.91	23.00	23.00
Man-Made Fibres	Mn. Kg	1,081.0	1,191.0	1,763.1	1,763.1	1,763.1	1,763.1
Man-made Filament	Mn. Kg	1,128.0	1,374.0	2,143.2	2,143.2	2,188.2	2,188.2
Worsted Spindles (Woolen)	000 No	598	604	604	604	604	604
Non-Worsted Spindles (Woolen)	000 No	426	437	437	437	437	437
<b>Production of Fibres</b>							
Raw Cotton	Lakh bales	140.0	241.0	290.0	305.0	325.0	356**
Manmade Fibre	Mn. Kg	904.0	968.0	1,067.3	1,268.0	1,285.0	855
Raw Wool	Mn. Kg	48.0	44.9	48.8	50.0	50.0	33
Raw Silk	Mn. Kg	15.9	17.3	18.4	19.7	21.1	14
<b>Production of Yarn</b>							
Cotton Yarn	Mn. Kg	2,267	2,521	2,896	3,079	3,491	1,790
Other Spun Yarn	Mn. Kg	893	937	1,016	1,114	1,223	778
Manmade Filament Yarn	Mn. Kg	920	1,179	1,416	1,522	1,550	966
<b>Fabric Production</b>							
Cotton	Mn. Sq Mtr	19,718	23,873	26,898	28,914	31,742	19,675
Blended	Mn. Sq Mtr	6,351	6,298	6,766	7,767	8,278	5,530
100% Non-Cotton (Including Khadi, Wool & Silk)	Mn. Sq.Mtr.	14,164	19,406	20,534	22,840	21,710	13,770
<b>Sub Total</b>		<b>40,233</b>	<b>49,577</b>	<b>54,198</b>	<b>59,521</b>	<b>61,730</b>	<b>38,970</b>
Per Capita availability of Cloth	Sq.Mtr.	30.68	36.1	39.01	43.12	43.25	42 (E)
<b>Textile Exports &amp; Imports#</b>							
Exports#	Mn. US \$	12014.4	17,553.0	21,450.8	23,420.0	24,800.0	18,000(E)
Imports#	Mn. US \$	1172.4	2,678.9	3,499.4	3,358.8	3,600.0	3,000(E)

(E)-estimates \*as on 31<sup>st</sup> March 2011 \*\* for cotton year 2011-12 ## As on 30 Nov 2011 Source: O/o Textile Commissioner Mumbai.

## **Disclaimer**

The data used in this report are from various published and electronically available primary and secondary sources. We have taken care to verify and cross check the accuracy of such data. However, despite due diligence the source data may contain occasional errors. In such instances, CITI is not responsible for such errors, but author could be accessed for any clarification.



**CONFEDERATION OF INDIAN TEXTILE INDUSTRY**

**6<sup>th</sup> Floor, Narain Manzil, 23-Barakhamba Road, New Delhi-100001**

**Tel: +91-11-23325012-15 Fax: +91 11 41519602**

**Website: [www.citiindia.com](http://www.citiindia.com) Email- [mail@citiindia.com](mailto:mail@citiindia.com)**

Any feedback or query may be communicated with author's **Email ID-** [ajay.kumar@citiindia.com](mailto:ajay.kumar@citiindia.com) or **Tel (O) :** +91-11- 41519058 **Fax:**+91-11-41519602.

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### **Regd. Office:**

1508, Maker chambers V, Nariman Point Mumbai-400021

Tele phone: +91-22 -22044314

Fax: +91-22- 22846783