Speech of Shri Shishir Jaipuria, Chairman, Confederation of Indian Textile Industry (CITI) at the 53rd Annual General Meeting held in Mumbai on Friday, 30th September 2011

Past Chairmen, Office Bearers and my colleagues in the Committee of CITI, Members, invitees, distinguished guests, representatives from the media, ladies and gentlemen,

I extend a hearty welcome to all of you to the 53rd Annual General Meeting of the Confederation of Indian Textile Industry (CITI). Let me begin by giving a very quick overview of some of the recent developments in our economy that have serious implications for our textile sector, before I brief you on the problems and prospects that our textile sector faced and the important activities undertaken by CITI during the last one year. There was expectation that having come out of the impact of the global economic crisis of 2008-09 and achieved reasonable growth in 2010-11, our economy would achieve an impressive growth during 2011-12. But recent indications are that the growth would moderate this year. The IIP data of April-May 2011 already show the signs of slow down. Poor performance of certain core sectors like cement and natural gas and consumption deceleration in cement, steel and automobiles show that our economy cannot sustain last year's growth. In fact, many experts expect our economic growth to decelerate to 7.5 percent this year. Inflation has been rising for months now and the unabated price rise has a vicious effect on the economy. It pushes up the interest rates, which affect the cost of production and reduce liquidity in the economy, which in turn impact the industry, especially the manufacturing sector. The RBI has increased the interest rates 12 times since March 2010, but still the prices continue to move up. This is a truly worrying aspect as high interest rates, coupled with hurdles in securing land and an increasingly weak global economic outlook have combined to hobble capacity expansion plans of Indian corporate sector as a whole.

Textile Industry performance

Our industry is passing through a crucial phase. During the last one year, we saw excellent growth in the first six months and a crisis situation during the next six months. With two quarters of mounting losses across the value chain, the textile and clothing industry is now eagerly looking forward to the coming quarters with both anxiety and hope. Over the years, our industry could achieve substantial growth in productivity, export earnings and employment generation and Indian T&C industry has become a formidable player in the global markets, thanks to the phenomenal growth in capacity addition and surging cotton production. As a harbinger of rural employment including for millions of female workers, the textile industry has been playing a vital role in achieving inclusive growth. The overall T&C sector production has shown a positive growth of 7.4 % in 2010-11 over the previous year. Cotton textiles led the production growth with an annual growth of 10.3 %. The capacity addition in the textile industry was marginally higher than in 2009-10, with additional capacity being installed in all segments. The number of spindles in the organised mills increased from 37.68 million in March, 2010 to 39.84 million in March 2011. Production of cotton yarn, blended yarn and non cotton yarn, fabrics and clothing registered positive growth during the year. The temporary halt in TUFS assistance affected the investment flow during the year, but with the restoration of new sanctions under the Scheme, investments will hopefully pick up in the coming months.

But the emerging trends do not portend a healthy growth for the current fiscal. After achieving positive growth rates during last year, all sub sectors of T&C industry have been registering negative growth since April 2011. The cotton segment with a weightage of 50% in formulating the T&C production index has nosedived in recent months after a trail of moderation in growth since October 2010. MMF/Wool/Silk textiles and Jute textiles have also witnessed de-growth during the months of April and May 2011. The apparel and home textile segments are showing a similar trend. The recent concessions extended by government to Bangladesh which allows zero duty access to the Indian market for practically all garments produced in Bangladesh would deal another deadly blow to our garment industry, since the cost of production in Bangladesh is substantially lower. In fact, these concessions would also have serious negative impact on our upstream segments that supply yarn and fabrics to our garment industry. While it is difficult to project future growth of our textile sector with any level of precision in the present situation, many experts believe that the crisis phase is over and despite the uncertainties in the economic scenario, demand for textile products in the global markets would pick up in the coming months. The price stability of commodities in global markets and a good domestic cotton crop expected in 2011-12 would add strength to our industry for a revival in the coming months. The depreciation of rupee against dollar during recent months may also give some temporary relief to the exporters in the short term.

Raw material scenario

Availability of raw material at reasonable price is the single most important competitive strength for any textile producing country. During cotton year 2010-11, cotton prices peaked to 2.4 US dollar per pound in the global markets and to Rs.63000 a candy in the domestic market. Though manmade fibres got some spill over demand due to high price of cotton, the increase in oil prices and continuation of trade defence measures on imports pushed up prices in the domestic market. More than the increase in fibre prices, it is volatility in prices that crippled the user industry. From Rs. 63000 in March 2011, cotton declined to Rs.32000 by July and again crossed Rs.41000 this month. Manmade fibres have been witnessing more or less the same trend, though a little lower in the dimensions. Since mills have to cover fibres at least a few months in advance, any sudden ups and downs in fibre prices would leave the industry holding huge high cost stocks whenever there is a sudden decline in prices.

We need concrete measures for fibre security in order to achieve sustainable growth of the T&C industry. Our farmers have been delivering more cotton than we can use and it is important to ensure that they get remunerative prices and remain motivated to continue with this crop. But we have to manage our cotton in such a way that adequate quantity remains available throughout the year and the ending stocks as well as stock-to-use ratio are sufficient to ensure stability in availability and prices. The National Fibre Policy has been too long in the works and needs to be officially launched at the earliest in order to avoid policy distortions of the kind that we witnessed for over a year now. Incentives for exports of cotton have to be avoided completely in order to ensure that our cotton does not become available to our competitors at lower prices. Futures trading should be effectively implemented to provide a workable risk management and hedging mechanism. Cotton being an agro product, working capital required for its purchase should be eligible for priority lending. There are apprehensions that cotton prices may go below the Minimum Support Prices announced by government in some production centres during certain months of the coming season. MSP operations, therefore, need to be streamlined. Both in procuring and disposing of procured cotton, there should be sufficient transparency and adequate consultation with the user industry. This is especially necessary in the context of the problems created by periodical discontinuance of sales and discounts for bulk purchases of procured cotton practiced in the recent past.

Restrictions on Exports of Cotton Yarn

Policy distortions on exports of cotton yarn added significantly to the challenges faced by the textile industry of India in recent months. Refund of domestic duties borne by exports remained suspended from 21st April 2010 to 31st March 2011 in the case of DEPB and from 29th April 2010 to 30th September 2011 in the case of Drawback. On 1st December 2010, a quantitative ceiling of 720 million kilos was announced for cotton yarn exports during 2010-11, which had already been registered in full by that date. This virtual ban on exports was not warranted as per government data, since production was increasing rapidly and domestic consumption was not keeping pace with production increases. The pleas of the industry that any decision to cap or restrict yarn exports in such a situation would only discourage capacity building in the industry were ignored. We had also pointed out that any serious problems in the spinning sector would eventually travel down the value chain. In addition to damaging the industry, the sudden discontinuation of exports seriously dented the image of India as a credible supplier of cotton yarn to the customers in global markets. The current lull in the off take of TUFS loans by all the segments of the industry has vindicated our stand, but we naturally feel only sad about it. The quantitative ceiling on cotton yarn exports has since been withdrawn and refund of duties on such exports has been restored. We can only hope that the lessons have been learned from the consequences of the knee-jerk measures taken last year and these would not get repeated.

Need for an industry specific restructuring of debts

The unprecedented rise in fibre prices in the global markets last year and then the steep fall in prices from April 2011 onwards have created havoc in the domestic textile industry. Spinners were left holding high cost fibres and unsold yarn stocks and this ate into their working capital significantly. The mills which were constrained by export restrictions did not find any domestic buyers since the value added industries were not in a position to pass on the higher raw material cost to their consumers. This created some discord among various segments of the domestic industry, in addition to affecting the operation of all of them. Textile mills which were showing healthy signs of growth during the last couple of years have now fallen into debt trap and have been making huge losses during the last two quarters. With large investments during the last ten years on modernisation and expansion, the industry has huge commitments for debt repayments and currently they are finding it impossible to meet these commitments. CITI has approached government, the Reserve Bank of India and various banks requesting for some debt restructuring facilities in order to help the industry to tide over the current crisis, which is substantially the making of global developments and government measures. Though all of them are apparently convinced of the gravity of the situation, no concrete measures have been announced so far and I am afraid time is running out for the industry.

12th Five year Plan

CITI has proposed a long term policy map to the government for consideration for the 12th Five Year Plan. We have explained that in addition to external factors like global slowdown and rising input prices, internal issues including inadequate policy support from government have affected the growth of our industry in recent years. While additional export incentives were introduced for the textile and clothing industry in most countries for meeting the challenges of global slowdown, in India export incentives were scaled down. The absence of flexible labour policy, serious infrastructural constraints like power shortage and transport problems and large transaction costs have already been putting export industry at a disadvantage. The T&C industry, unlike other manufacturing sectors, is operating in highly competitive global markets where pricing plays a vital role in expanding the market share. Competing countries from Asia have gained significantly in the global markets during recent years. In the domestic market also, the advantages that the Indian industry had in the form of raw material and skilled labour force have been waning. Measures are required to ensure fibre security for the textile sector. In the case of workers, both availability and skilling are major issues that have to be tackled together by government and the industry. We have pointed out to government that the T&C industry can achieve significantly higher growth if these constraints are minimized through effective and coordinated action by all the stakeholders.

Skill requirements of Textile Industry

The country is currently grappling with serious challenges in finding the necessary skills, especially for the manufacturing industry, including a huge supply-demand gap both in terms of quality and quantity. The current vocational education and training infrastructure is not geared up to meet these challenges. Being a highly labour intensive sector, the textile industry is finding it difficult to find workers in most of the production centres, let alone skilled workers. Going forward, this is bound to be one of the major challenges before the textile industry in the country. Government is fully sensitised on this issue and has established a National Skill Development Corporation as a Public Private Partnership organisation to address skill requirements of various industries and the other sectors of the economy. As an equity holder of NSDC, CITI is working in close cooperation with the Corporation for addressing the skill requirements of the textile industry. We have submitted a proposal to NSDC for undertaking a skill development programme for the textile industry on an all India basis and to create a national resource pool of trained manpower for the textile industry. The project envisages training of around 1.5 million workers for the textile industry in a period of ten years. The objective is to ensure adequate availability of trained workers for the mills as well as upgrading the skills of the existing labour force to retain the competitive edge in the fast changing environment of technology. A proposal for establishing a Sector Skill Council for the textile industry with the mandate to standardise and certify the training facilities of the country in this sector is in an advance stage and will be submitted to NSDC within a couple of weeks.

I have briefly touched upon some of the key issues and activities handled by CITI during the last one year. Due to the paucity of time, it would not be possible to go into all the details. The entire activities and the important representations are included in the annual report which is in your hands. I am happy to note that CITI has evolved over the years as the voice of the textile sector of India. There is much more to achieve since the industry will continue to have major challenges before it in the coming years as we all know from the current perspective. I extend my best wishes to the teams that will be steering the organisation during the coming years for meeting all these challenges effectively and successfully.

Young Entrepreneurs Group

A Young Entrepreneurs Group (YRG) has been functioning in CITI for several years now. I am happy to note that the YEG has been growing in size and activities from year to year and now has a total membership of 43 young industrialists from the textile, clothing and machinery segments of our industry. YEG is an effective forum for grooming industry leaders for tomorrow. I would use this opportunity to congratulate Shri Sridhar Varadaraj, Managing Director of Premier Evolvics Pvt. Ltd and Shri Sunil Goenka, Joint Managing Director of Texport Syndicate (I) Pvt. Ltd, who have been elected as the Chairman and Vice Chairman respectively of CITI-YEG, earlier this month.

Acknowledgments

I would like to take this opportunity to thank Shri Pranab Mukherjee, the Union Minister of Finance who has been very helpful to the textile sector both as Finance Minister and as the Chairman of the Group of Ministers that looked into some of the issues of this sector during last year. Shri Anand Sharma, the Union Minister has given us valuable support and guidance both in his capacity as the Minister of Commerce and Industry and also as the Minister of Textiles after he took over the charge of this Ministry a few months back. We had several occasions to approach him with serious problems and we received his unstinted support every time. We are thankful to him for his continued support to the industry. Textile industry is also grateful to Shri Daya Nidhi Maran the former Minister of Textiles for his support.

During the last year, we had to approach Dr. C. Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister on more than one occasions and he was extremely helpful every time. CITI and the textile industry are grateful to him for his valuable help and guidance. We would also like to thank the Reserve Bank of India, the India Banks Association and various banks and financial institutions for their continued support to the industry.

Smt. Rita Menon, Secretary, Textiles has been a guiding force for the entire textile industry during the last few years. In addition to helping us in matters dealt with by the Textile Ministry, she also took up our issues effectively with the other concerned Ministries and Departments. On behalf of CITI and the industry I would like to extend my deep gratitude to her. I would like to thank Shri V. Srinivas, Joint Secretary, Ministry of Textiles and Shri A B Joshi, Textile Commissioner, for giving us their support and cooperation throughout the year.

I would like to thank Shri S. V. Arumugam, Deputy Chairman and Shri Prem Malik, Vice Chairman for their support in discharging my responsibilities as Chairman of CITI during the last two years. I would also like to thank the Office Bearers and members of CITI's Member Associations and Associate Members and all Committee Members of the Confederation for the cooperation extended to me and my colleagues in CITI for pursuing the issues of our industry. I am also grateful to all the Corporate Members for their support to CITI.

Friends, the Past Chairmen of CITI are the pillars of strength for the Office Bearers of our Confederation. I was fortunate to benefit from their wisdom and guidance during my tenure as Chairman of CITI. I am indebted to all of them.

I will be failing in my duty if I do not keep on record the gratitude of the industry and CITI to Shri P.D.Patodia, Chairman of our Standing Committee on Cotton for his untiring efforts in pursuing the cotton interests of our industry and establishing linkages with all the stakeholders in the cotton economy. CITI-CDRA continues to be very active in the cotton sector under his stewardship.

The visual and print media have been of immense help to our industry in projecting our problems and prospects to government and the country at large. We are grateful to them for their support. I would also like to extend my sincere thanks to the Secretariat of CITI for the dedication shown by them in discharging their duties.

Thank you all.