STRATEGIES FOR REALISING VISION 2010 OF INDIAN TEXTILE AND APPAREL INDUSTRY

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The paper discusses about the present status of Indian Textile and Apparel industry and the opportunities of its growth in near future. The ambitious target of US $ 95 Bn requires every stake holder of this industry to study minutely its strength, weaknesses and reflect upon the strategies to be adopted. While justifying the conditions which are conductive to growth, the paper describes government policies and measures taken to further boost the performance of the industry. It also lists number of bottlenecks, one need to be cautious of and emphasises on the need for encouraging FDI and reformation in labour laws.

Key words: *Indian textile industry, Growth, Weakness, Strength.*

INTRODUCTION

The overview of Textile sector includes following key elements. Textile is a key contributor to GDP to the order of 4%. It accounts to 14% of National Industrial production and it is a significant forex earner to the tune of 16% through exports. Textile export is 17.8 $ billion and Textile imports was 2.2 $ billion. It is an important employment generator sector next to only agriculture sector and it provides direct and indirect employment to about 35 million people. In the year 2004-2005 we have had Textile Mills as follows:

- Spinning Mills Nos.-2,012;
- Composite Mills Nos.-1,566;
- Exclusive weaving mills Nos.-202.

Capacity Installed

- Spindles Million Nos.-37.47.
- Looms Lakh Nos.-1.03.
- Powerloom Lakh Nos.-19.03.
- Handloom Lakh Nos.-38.91.

The Textile and Apparel industry is playing the role of mother industry.

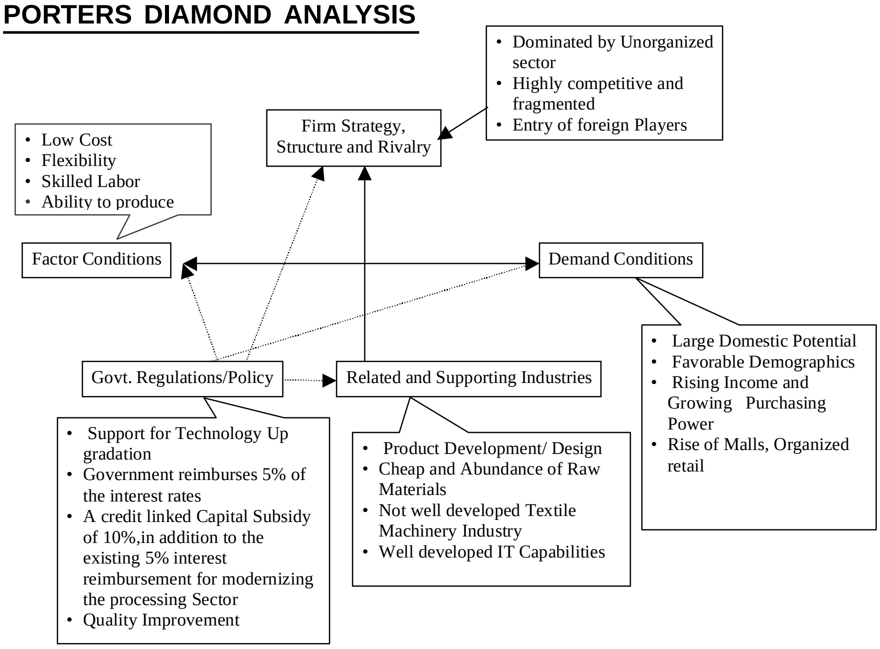
WHAT IS THE INDIAN TEXTILE MARKET SIZE?

For the year 2005-06, the market size is shown in Bn US $ as follows:

Table 1: Indian Textile Market Size

	Export	Domestic	Total	% to Total
Apparel	8.64	19.22	27.86	59.28
Textile	9.24	9.99	19.14	40.72
Total	**17.88**	**29.12**	**47**	**100**

COMPETITIVENESS OF THE INDIAN TEXTILE INDUSTRY - PORTERS DIAMOND ANALYSIS



FAVOURABLE CONDITIONS

India's strength can be summarised as follows, it has wide raw material base.

- It is number 2 in cotton production.
- Silk, Jute, MMF very strong.
- Low costs in manufacturing.
- Relatively cheap labour.
- Highly improved Policy Environment as compared to past-Fiscal, Regulatory and Supportive.

DRIVERS OF DOMESTIC GROWTH

There has been tremendous increase in demand and so also the supply which are serving as strong drivers.

Increasing Income Levels

It has been one of the major factor causing this enhanced demand.

Increased Usage of Credit Cards and Availability of Cheap Finance

- The use of credit cards (plastic money) has increased significantly in the last 3-4 years. The number of credit cards issued has grown at 26 % per annum in the past 5 years while debit cards have grown by a whopping 113%.

Table 2: Distribution of Households by Income Category

Classification	Income Class	2001-02	2005-06*	2009-10*	CAGR
Deprived	<90	135,378	132,250	114,394	-3.6
Aspirers	90-200	41,262	53,276	75,304	9.0
Seekers	200-500	9,034	13,813	22,268	12.7
Strivers	500-1000	1,712	3,212	6,173	17.7
Near rich	1000-2000	546	1,122	2,373	20.6
Clear rich	2000-5000	201	454	1,037	22.9
Sheer rich	5000-10000	40	103	255	25.4
Super rich	>10000	20	53	141	27.7
Total Projections		**188,193**	**204,283**	**221,945**	**2.1**

Note: Income is in Rs.'000 per annum at 2001-02 prices and the households are in '000s
Source: NCAER

Increasing Working Female Population

Women Population has been slowly increasing with respect to their participation in contributing toward national wealth generation.

- The age profile of Indian borrower has gone down from 44 to 33 years now.

Favourable Demographics

- The population of India is expected to increase from 1029 million to 1400 million during the period 2001-2026.
- The population profile of India is shifting towards a larger composition of people in the age group 15-59. India most favourably placed globally. Out of the total population increase of 371 million between 2001 and 2026, the share of the age-group 15-59 years in this total increase is 83 %.
- The growth in population is taking place in the urban area. Out of the total population increase of 371 million during 2001-2026 in the country, the share of increase in urban population is expected to be 249 million.
- Favorable Demographics- increasing young population and that too in the urban area- coupled with rising income levels will act as a key growth factor for the Indian Textile Industry.

Growth of Mall Space

- From 2 mn sq ft in 2001, we had 28 mn sq ft of mall space in 2005 - and by end 2008, the eight Indian large cities will have a supply of 66 mn sq ft and the next seven large cities about 13 mn sq. ft.
- The entry of Reliance, Aditya Birla group, expansion of Futures and now of Bharati-Walmart is expected to further sizzle Indian market.

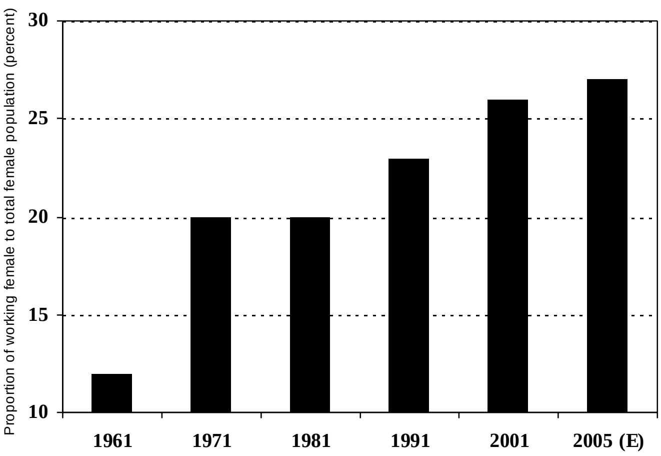


Fig. 1: Working Female Population

Source: CENSUS

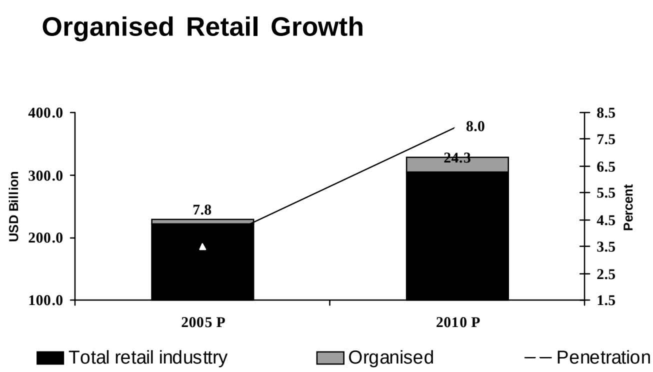


Fig. 2: Growth Profile of Retail Industry

DEMAND FACTORS DRIVING EXPORT GROWTH

Following are the key reasons for such a spurt in growth:

- Dismantling of the MFA regime and the full play to the Indian entrepreneurship.
- Progressive dismantling of the textile and mass apparel industry from the Western world. India is a major player to fill this gap. The current quantitative restriction on China is helping India.
- Buying of several Western brands by Indian industry, thus facilitating entry in EU and US.
- Increasing modernization of Indian textile and apparel manufacturing sector in response to the increased global demand and facilitated by the TUFS scheme.

THE CHALLENGE OF MEETING VISION 2010

The challenge before all the stake holder is can we take advantage of all these favourable factors and demand conditions to reach our vision 2010, "can we achieve our Indian Textiles and Apparel industry-vision 2010".

The vision 2010 before us is characterised by following key target goals:

- Market size of US$95 Bn.
  - Export Target- US $ 50 Billion
  - (National Textile Policy, 2000)
  - Domestic market - US$ 45 Billion
  - (CRISIL Study, 2004)
  - India's market share in World textiles trade to grow from 3% to 6%.
  - 12 Million Additional jobs.
  - Investment - Rs. 140,000 Crores.

The initial answer is yes. In fact our optimism is based on the dynamism shown by the Industry in the last 2 years. Not coincidentally these two years have been the post-quota years when the Indian textile entrepreneurship could sense the unprecedented opportunity domestically and globally.

Growth in Fabric Production

This optimism is based on growth in fabric production, which is obvious from the data in Fig.3.

Growth in Investment

The reasons for optimism include significant growth in investments in Textile Sector.

Investments under TUFS have grown significantly recently. In fact the projected investments in the last 18 months have surpassed previous 7-8 years. (Fig. 4)

Growth in Exports

Export enhancement is another reason to be optimistic about reaching the target goals. (Fig. 5)

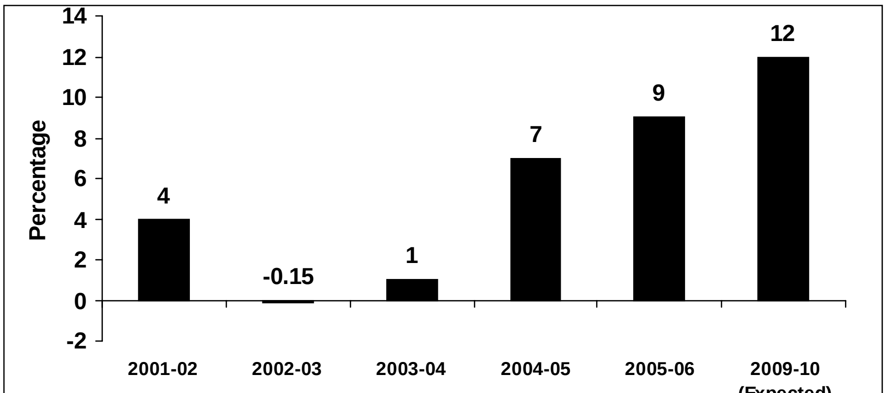


Fig.3: Growth in Fabric Production.

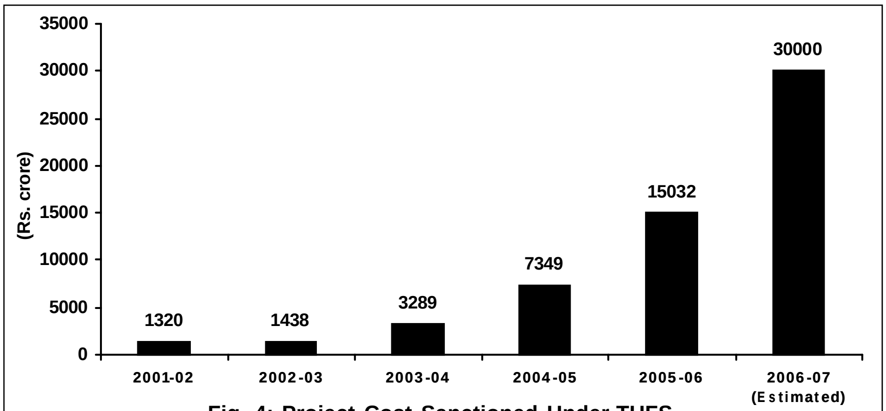


Fig. 4: Project Cost Sanctioned Under TUFS.

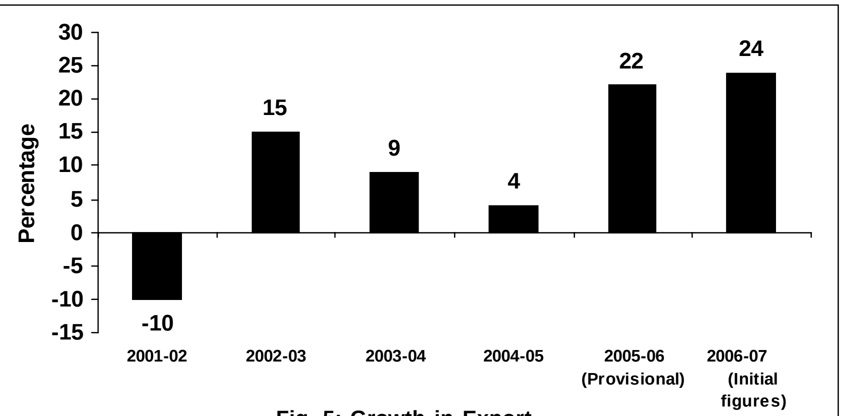


Fig. 5: Growth in Export.

Winners and Losers in EU Market 2005 Over 2004

When one analyses this scenario, it is clear that India is poised for excelling its performance.

- Gainers: China, India, Turkey
- o Losers: Thailand, Pakistan, Indonesia

Winners and Losers in US Market 2005 Over 2004

Similarly the picture is encouraging when analysis of US market is done.

- Gainers: China, India, Indonesia, Cambodia etc.
- o Losers: Turkey, Mexico, Canada.

CHALLENGES

However, despite all favourable factors and demand conditions, there are bottlenecks and issues which require our urgent resolution.

Is Export All That Rosy?

EU Market Variation in Jan-Jun 2006/05 can indicate that Bangladesh and Indonesia have taken over India. (Fig. 7)

US Imports of T & C Percentage Variation Jan - Sept. 2006/05

These figures also indicate that the competition is quite stiff and we need to be sensitive to variations in US market. (Fig. 8)

The developments in US exports can be summarised as follows:

- In Jan-Sept 2006, as compared to Jan-Sept 2005, US's textile imports grew only by 2.5% and India's exports to US increased by 11.1%.
- In this period, Indonesia grew by 26.9 % (almost exporting the same amount as that of India in Sept 2006), Vietnam by 23.9%, Bangladesh by 23.4%, Pakistan by 16.4%, Cambodia by 26.2%. In other words, India lagged in performance as compared to other countries.

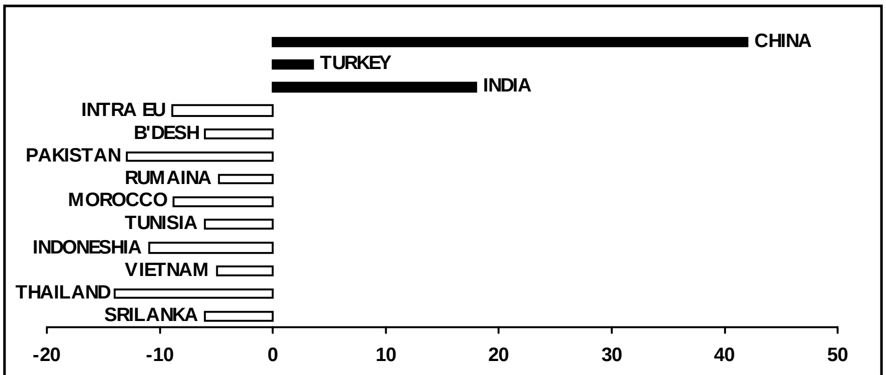


Fig. 6 (a) : Winners and Losers in EU Market

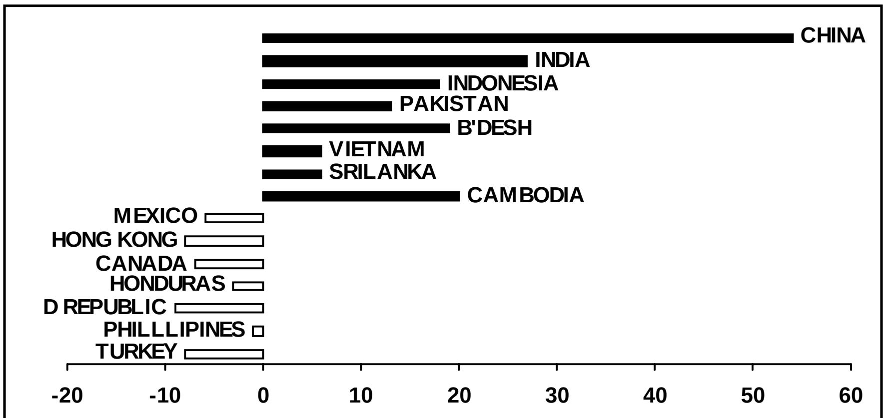


Fig. 6 (b) : Analysis of US Market 2005 over 2004

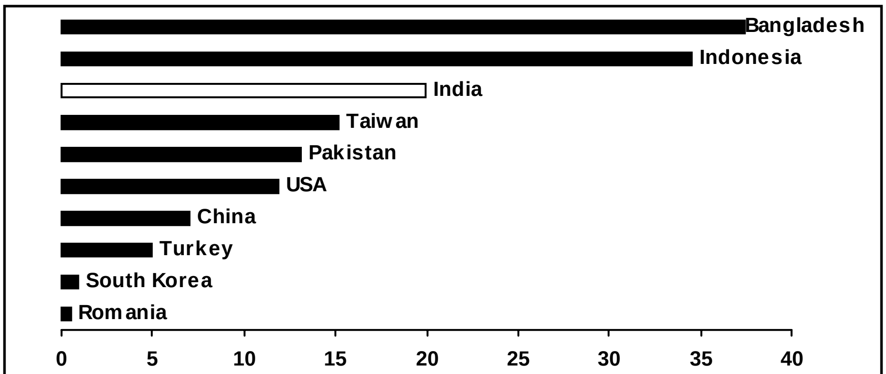


Fig. 7: Variation in Export to EU Market

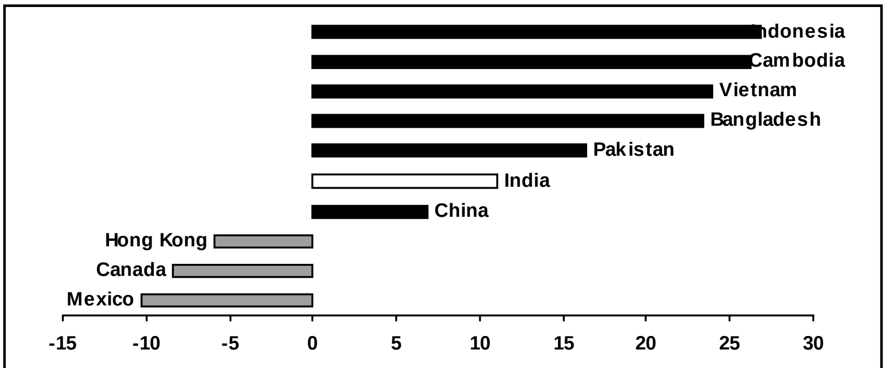


Fig. 8: Variation in Imports by US

Table 3: Comparison of Weaving Industry

Weaving Capacity (2003)	India	China	Pakistan	Indonesia	World
Shuttle-less looms (Nos.)	31,629	157,976	25,191	27,430	775,148
Shuttle looms (Nos.)	1,924,070	875,410	260,302	234,004	4,113,435
Shuttle-less looms (as % of total looms)	2%	15%	9%	10%	16%

- Any Chinese proxy exports through some of the SE countries? This could be also a possibility.

Fragmented Weaving Industry

We lag behind on two accounts: firstly on lack of modernization and secondly on very nature of industry being fragmented. (Table - 3)

Fragmentation in Processing

Processing is one of the major weak links and at the same time has lot of potential in value addition to the product. Indian processing industry is fragmented and technologically backward as a group. Its features are as follows:

- Composite units - 83
- Semi Composite units - 155
- Independent processing units - 2076

Total - 2324

- No. of units of modern technology - 227
- No. of units of medium technology - 1775
- No. of obsolete units - 322

In other words India is yet to reach the global standards in processing.

Source: Textile Committee Census

Garmenting is also Fragmented

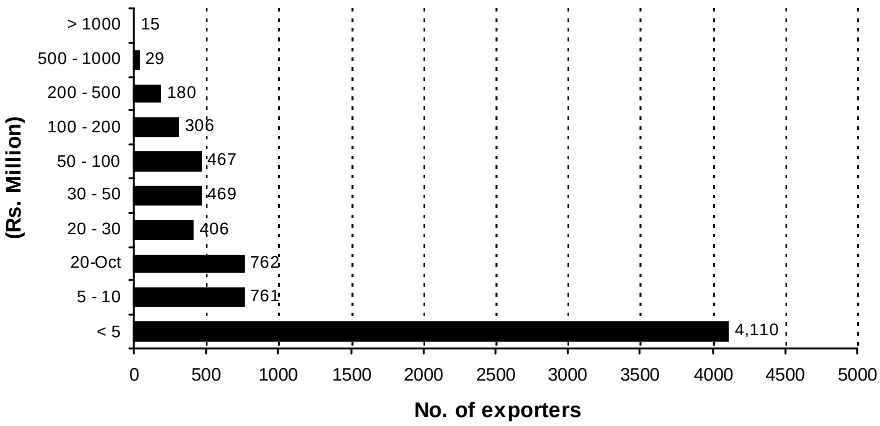


Fig. 9: Garmenting Units with their Size of Turnover

Source: Industry

WEAKNESSES

There are a number of weaknesses which we posses as an industry and they need to be overcomed.

Weakness in Domestic Textile Machinery Manufacturing Sector

Weakness in domestic textile machinery manufacturing sector is of very paramount nature. This apparent when we characterise this sector further over 700 machinery and equipment manufacturers possess annual estimated full capacity of Rs 3800 crores. In other words it is growing at 25% for the last 2 years. However, domestic demand of textile machinery is expected to be over Rs10000 crores. In other words we are much short of our demands. At the same time we are yet manufacture highly sophisticated weaving, processing and garmenting machinery and in this field, there is an adire need to build our capacity and capability.

Weakness in Labour Sector

This sector also requires a lot of attention as industry is feeling the crunch. There are a number of issues which include:

- Highly seasonal requirements – fashion driven production
- Inflexibility in hiring labour – loosing cost advantage of wage rates
- Cat call strikes abruptly disrupt production schedules
- Restrictions on working hours.

This situation is further aggravated due to rigid labour laws. Because of this, our competitors always get an edge over our exporters. Chinese Apparel industry has highly flexible labour laws which allow for lay offs in non peak season; hiring of contract labour; flexible hiring and firing system in SEZ units. Mexican Apparel industry is allowed lays offs during slack business. Even Bangladesh allows workers lay off in Free Trade Zones Unions and strikes are not allowed in Free Trade Zones.

Table 4: Human Resource Requirements

Sr. No	Sector	Investment (In Crores)	Additional Capacity	Man Power Requirement (All In Lakhs)
1	Spinning	45,000	15 Million Spindles (31)*	2.93
2	Weaving	30,000	84,600 Looms	0.80
3	Knitting	10,000	21,000 M/Cs(30,000)*	0.47
4	Processing	30,000		0.90
5	Garment	25,000	11.25 Lakhs M/Cs (18.75)*	40.00
	Total	**1,40,000**	*** Total Including Replacements-**	**42.10**

HRD Issues: Present Gaps

It is important to be cognizant about the need for increased number of trained human resources. If the growth is being driven due to enhanced demand and supply and a lot of investment in developing fresh capacity is made, commennirately it is important that the gaps in human resources are narrowed down as fast as possible. Table - 4.

Growth Constraints in MMF Sector

There are a number of issues Man Made Fibre sector is faced with'. These issues include

- Cotton : Man-made fibre balance 60 : 40 in India, as compared to 40 : 60 global
- Vast export potential for man-made textile items
- Mandatory CENVAT on man-made fibres / yarns - 8%
- Resultant increase in cost of upstream products
- Indian MMF manufacturers prefer to export rather than supply to domestic MMF user industry at international prices
- This discourages value addition within the country
- High incidence of import duty on MMF restricts access to imports by MMF users.

BOOST THE INVESTMENT: NEED OF TODAY

Looking at our present target for Textile Industry to reach US$ 95 Billion mark, Rs. 140,000 Crores investment is required in Textile Industry. The break up of this investment is described in Table 5.

STRATEGY OF VARIOUS STAKEHOLDERS

Strategy for the Government

Various stake holders have to plan their strategies. So that we collectively achieve our targeted goal. For the government, following strategy could be beneficial.

TUFS

It is beyond doubt that TUFS has done a lot of good to Indian Textile and Apparel industry and there who availed of TUFS have reaped the fruits.

Further investments must continue to be encouraged- TUFS should be continued (may be with some modification). The leveraging of TUFS subsidy is 11.02 times, i.e. for every Re1 spent by government under TUFS, industry invests Rs. 11.02. Other governments are also helping out their industry.

Continuance of Textile Infrastructure Schemes

SITP (Scheme for Integrated Textile Parks) has had a huge success. In all 26 parks were approved. GOI's contribution will be Rs. 866 crores with another Rs.1250 crores to come from private sector. Estimated investment is of Rs.13445Crores. There is a need to continue such schemes on the PPP model.

Aggressive Wooing of FDI

Indian textile companies are small and fragmented. (Top 32 companies = 11% of capital employed). Financial strength of

Table 5: Sectorial Breakup for Required Investment

Target of $50Bn Exports and $45 Bn Domestic Mkt.					
	Present Capacity	Required Capacity	Gap	Investment Potential in Machinery (Cross INR)	Total Investment Potential (Cross INR)
Spinning (Million Spindles)	39	45	6	12000	24000
Number of Looms	20000	58000	38000	12000	22000
Number of Knitting Machine	4500	12500	8000	8000	17000
Processing (Woven) Mn.Sq.Meters	33800	70400	36600	14000	25000
Processing (Knits) Mn.Sq.Meters	7800	21500	13700	12000	22000
Sewing Machines (Million)	3.3	6.5	3.2	12000	3000
Total				70000	14000

Source: CRISIL Study, 2004

individual companies to invest is weak, in relation to the overall investment requirement of $ 36 Bn. Between 1991-2006, only 1.31% of total FDI was in textiles. Looking at 14% of industrial production is textiles, this picture is quite decimal. Our competitors have an edge on this front. For example against investment of US$ 5.8 Billion in China, investment in India was US$ 50 Million only. We must know that FDI will help us build large scale capacities; FDI will bring in best practices and technology in textiles manufacturing and it will introduce newer products / markets. The specific areas needing FDI are:

- Weaving and processing (large garment exporters imports upwards of 40% of their fabric requirements);
- Home textiles (large export potential);
- Logistics and supply chain;
- Technical Textiles;
- Machinery Manufacturing.

Regarding MMF Sector

There is proposal from MMF sector that the import duty reduction should take place for MMF. There is a need to correct fiscal duty imbalance between MMF Vs Cotton. Also it is expected that the reduction in CENVAT on MMF be upto 4% on optional basis.

High Transaction Costs

There are certain issues involving high transaction costs which are as follows:

- According to EXIM Bank Study (2002), transaction cost is very high in Textile & Garments Sector ranging from 3-10%
- Ownership of exports - less support from State Governments
- Non-refundable incidence of State Taxes - VAT, Entry Tax, Luxury Tax, Mandi Tax, Electricity Duty, Octroi, etc.

The proposal is as follows:

- To consider refund of State / Local levies through appropriate refund mechanism. There involves another issue and that is high power cost. There is cross subsidization and also frequent power interruption, which not only affect the production, but also erodes the competitive edge in the business. Table 6 indicates the comparative picture of power costs and how high are India's power costs.

Table 6: Power Costs in Respective Countries

Country	Cost (Cent / KWH)
India	8.87
China	6.04
Indonesia	3.65
Bangladesh	3.49

HRD

As mentioned earlier, Human Resource Development must be done on priority. Governments in PPP mode with the industries must invest heavily in training in the textile sector esp garmenting which has the potentiality to provide 4 million jobs by 2010.

Industry's Future Macro-Directions

Consolidation and Integration

The increasing competition- both in domestic and international arena- will play havoc with the stand-alone and small players. To fully absorb competitive pressures, players will have to take advantage of margin throughout the value chain. The culture is likely to see the "Return of the Composite Mills" Leading Home-tex players like Welspun, Alok are now fully integrated, with strong competencies in spinning, weaving, and finishing.

Scale and Size

Scale will be the differentiator between success and failure. The big retailers will also look for big suppliers. But will the death knell of small players be sounded? Small players may have to join together in a cluster. The SITP parks will be able to facilitate the coming together of several small players to take orders as a group.

Quality Norms and the Urgency to Modernise

Quality Norms i.e. not only in terms of the fabric finish, but all social norms will have to be followed. It means right from the issue of cotton contamination during ginning and processing to shuttle-less weaving to continuous power processing and international quality stitching, all these stages are encompassed when quality is looked into. The new retailers will demand both low price comparable to China and very high quality. This is not to say that older technology will not remain. Because India will continue to have demand for all type of products, but their bargaining strength will drastically reduce. Hence there is an urgent need to modernise. It is certain that old technology players will wither away.

Brand Presence

There has to be greater shift towards branded products. Realization is becoming evident that real value addition comes only after branded sale. In apparels, on domestic front the major brands are with Madura, Arvind, Raymonds. In home textiles, Spaces brand of Welspun, Carmichael House of S. Kumars are becoming popular. On International front we have several examples in home textile e.g. Purchase of Christy by acquiring CHT holding by Welspun or Dan Rivers and Roseby's by GHCL.

Designer Labels

Designer labels will also have to be brought in to counter the pull of top international labels like Tommy Hilfiger, Zegna, Mark and Spencer and Ralph Lauren. Alliance with Indian designers is very important over here.

Diversification

There is a need to get into newer areas e.g. Technical textiles, which are destined to grow at a much faster rate. The industry leaders have to constantly innovate, think of newer fibres, newer fabrics and newer designs. India is re-emerging in textiles, as in most other fields of economy. India must press ahead our tremendous advantages and must keep in mind that India cannot afford to miss this opportunity.

CONCLUSION

Dismantling of quota has placed before India enormous opportunities to expand her share in Textiles and Apparel segment. International scenario does indicate conducive business atmosphere for India, the extent India, should have had progressed is relatively lesser than neighbouring countries. Structurally, fragmented weaving, processing and garmenting sectors need further strengthening in terms of technology modernization and human resource training. For realizing the dream goal of US $ 95 Bn, India has to encourage a lot of local as well FDI in this sector so that the pace of progress could be maintained. The government understands it responsibilities. However, all the stake holders have to redouble their efforts so that our share in World Textile Trade increases significantly. ■