

Integration of Value Chain to Maximize Growth



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Sunil Khandelwal,
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Extending the Value Chain from RMG to Branding & Retailing

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A golden period for the Indian textile industry is ahead. There's no looking back. Alok is an integrated textile company. We have a presence in both cotton and polyester. In the last financial year we had a 75 per cent turnover from cotton and a 25 per cent turnover from polyester. Going forward, the incremental demand in textiles can only be met by synthetic fibers. Alok would probably have an equal mix of cotton and polyester. Alok is an integrated textile player, from spinning, weaving and processing. We were among the first to identify the opportunities in the textile space consequent to quota removal. We did an aggressive capex in the last six years. We did a capex of almost Rs 8000 crores and created a scale almost comparable to anyone else in the world including China. In each of the segments in the Indian textile space we are having at one location the largest capacity deriving the benefit of integration, large-scale operation and economies of scale.

The Indian textile trade today is about \$ 70 billion of which \$ 47 billion is domestic and \$ 23 billion is exports. This segment may grow to \$ 220 billion in ten years. After hundreds of years India has just reached \$ 70 billion. In the next ten years we will be \$ 220 billion country. This increase can't be fed by cotton alone. It has to be synthetic fabric. Already 55 per cent of fabric production is non-cotton. I will say this industry is the industry of the decade. But to reach this figure the industry has to invest about \$ 70 billion.

The world textile trade is about \$ 510 billion and growing at a CAGR of 5 per cent a year. It's expected to reach \$ 3 trillion by 2020. It's the world population that's helping this growth. The Indian apparel industry is about \$ 33 billion and growing at a CAGR of 11 per cent a year. It's expected to be \$ 100 billion by 2020, that is, three times what it is today. And in the segments here, men, women and children, the men's segment is the highest today with a \$ 10 billion share, which will grow to \$ 38 billion. Women's share is 8 billion, which will grow to 43 billion. Children's which is \$ 4 billion will grow to \$ 19 billion. So each of the apparel segments will grow by about three times.

The Indian retail story is even more encouraging. The Indian retail industry is about Rs 15 lakh crores out of which organized retail is 7 per cent, close to one lakh crores. Organized retail is likely to be 40 per cent by 2020. It is expected to be 10 per cent of the total retail size estimated to be 27 lakh crore in 2014. So organized retail will be two lakh 57,000 crores and it's growing at 22 per cent a year compared to the overall retail growth of 13 per cent. The apparel segment is almost 35 per cent of the organized retail industry. As the organized retail industry grows, the apparel segment will grow.

Rising per capita incomes and dropping dependency ratios are the key factors. The population is very young. This population is aspirational and will have a higher spending power. Fabric for fashion is broadly divided into wovens and knits. Fabric manufacturers have to innovate across the value chain. Integration is the order of the day. They have to be cost-effective. They have to be innovative in products, processes, brands and channels.

India's fabric production is 55 million square meters and growing at a CAGR of 3 per cent. Since the industry is growing at a CAGR of 11 per cent, we are heading for a fabric shortage. The rate of fabric production should increase. Out of the fabric we produce, 5 per cent is exported. And fabric exports are growing at a CAGR of 14 per cent. About 22 per cent of the fabric production is knitted and it's growing at a CAGR of 5 per cent. If you look at the proportion of knitted to woven in India, we are nowhere near the world average. The world average is about 40 per cent knitted fabric and 60 per cent woven. India is barely 20 per cent of knitted fabric. So this is the segment likely to grow more rapidly than the woven segment. Synthetic fabric production has to grow from 55 to 75 per cent. Indian fabric manufacturers should keep this in mind.

- We did an aggressive capex in the last six years.

- In the next ten years we will be 220 billion dollars.

- The world textile trade is expected to reach 3 trillion dollars by 2020.

- Out of the fabric we produce, 5 per cent is exported.