

THE INDIAN TEXTILE INDUSTRY HAS REAPED BENEFITS OF CHINA'S GROWTH SLOWDOWN, FAVOURABLE GOVERNMENT POLICIES AND A STRONG RAW MATERIAL BASE AND HAS REGISTERED A BOLSTERED GROWTH CURVE. A THOROUGH LOOK AT THE CHALLENGES THAT STILL LIE AHEAD AND THE WAY FORWARD.

## INDIAN TEXTILE INDUSTRY: PRESENT SCENARIO, CHALLENGES AND WAY AHEAD

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**T**he textile and apparel sector is one of the leading segments of the Indian economy and one of the largest sources of foreign exchange earnings. It accounts for about 5 percent of the gross domestic product (GDP), and around 13 percent of the total exports earnings. The sector also provides direct employment to 52 million people and indirect employment to an additional 69 million people.

India's key strengths in this sector lies in availability of all types of natural and man-made fibres, large pool of manpower across the levels of hierarchy, presence of complete value chain, a large and growing domestic market and design capability. Indian exporters are

also well supported by Government Schemes such as Duty Drawback, Rebate of State Levies (ROSL), Merchant Export from India Scheme (MEIS), Advanced Authorization, etc. Several state governments like Gujarat, Jharkhand, Maharashtra, etc, are also offering sector specific incentives like capital subsidy, interest subsidy, wage subsidy, etc. These support initiatives allow Indian exporters to overcome a large part of duty disadvantage they face in markets of EU and US where some of the competing nations get a zero duty access. These factors make India a preferred destination for textile investments as compared to its competing nations like Bangladesh, Vietnam, Sri Lanka, etc. This article further details the current status of Indian textile and apparel industry, key trends, challenges and the way ahead for the sector.

## India Production Scenario

India has large manufacturing capacities across the complete manufacturing value chain viz. natural and man-made fiber production, spinning, weaving, knitting, processing, garmenting, made-ups and technical textiles.

Indian textile and apparel sector has double advantage of being export competitive as well having large domestic consumption which is growing. Indian textile and apparel market is currently estimated at US\$ 122 billion. The domestic consumption of textiles and apparel constitutes approximately 70 percent of the total market size while exports constitute the rest 30 percent.

TABLE 1: INSTALLED CAPACITIES IN INDIAN TEXTILE SECTOR (2016-2017)

Description	Capacities
Spindles	52 Mn
Rotors	0.9 Mn
Man Made Fiber	1.8 Bn. kg.
Man Made Filament	2.2 Bn. kg.
Looms (Including power looms)	2.6 Mn

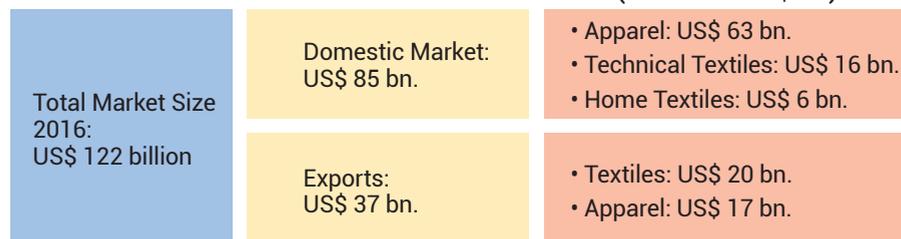
Source: Office of Textile Commissioner, Government of India

TABLE 2: INDIA'S TEXTILE AND APPAREL PRODUCTION

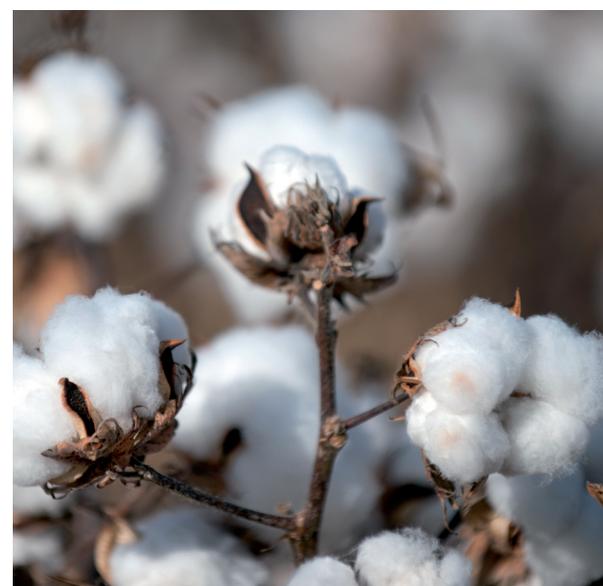
Commodity	Production (2011-12)	Production (2016-17)	CAGR (2016-17)
Fiber (mn kg)	9,593	9,189	-1 %
Natural Fiber	8,359	7,825	-1 %
Manmade staple fiber	1,234	1,364	2 %
Yarn (mn kg)	5,835	6,818	3 %
Spun yarn	4,372	5,659	5 %
Manmade filament yarn	1,463	1,159	5 %
Fabric (mn sq. m)	60,453	64,421	1 %
Woven fabric	47,507	46,884	0 %
Knitted fabric	12,946	17,537	6 %
Garments (mn pcs)	12,600	18,500	8 %
Made-ups (mn kg)	1,800	2,100	3 %

Data Source: Office of textile Commissioner and Wazir Analysis

FIGURE 1: INDIAN TEXTILE AND APPAREL MARKET 2016 (VALUES IN US\$ BN)



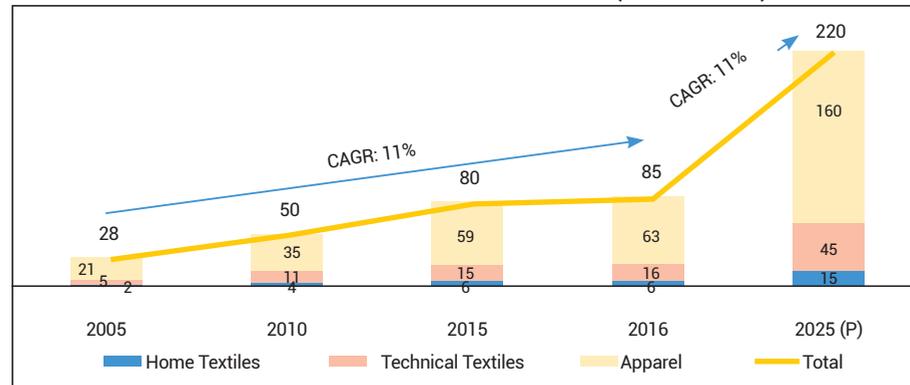
Data Source: Ministry of Textiles, DGCI&S and Wazir Analysis



## Domestic Market Overview

The current domestic textile and apparel market is estimated at US\$ 85 billion, with apparel having ~75 percent share. With growth of disposable income, favorable demographics and changing lifestyle, consumption of products and services is expected to grow continuously in the foreseeable future, including textiles and apparel. The domestic T&A market is expected to grow at 11 percent CAGR to reach US\$ 220 billion by 2025. Technical textiles is a promising segment, which is expected to grow at a higher rate of 12 percent CAGR, while apparel and home textiles would grow at around 11 percent CAGR in this period.

FIGURE 2: INDIAN TEXTILE AND APPAREL MARKET SIZE (US\$ BILLION)



Data Source: Ministry of textiles and Wazir Analysis

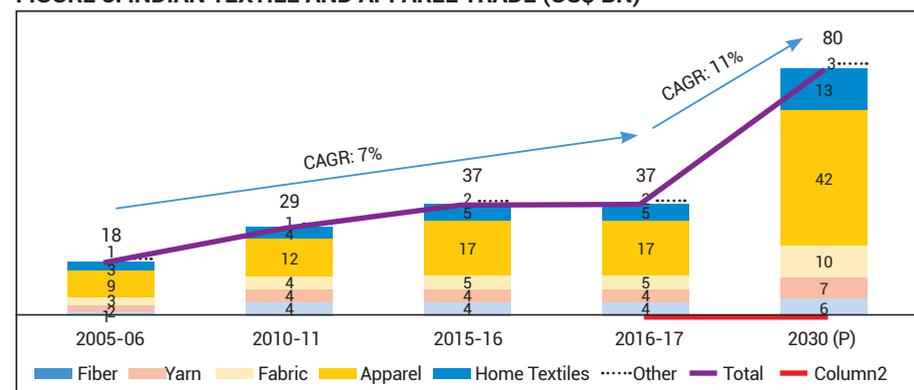
Indian consumers' affinity towards brands and organized retailing is increasing, which is helping the consumption growth of all products, including textile and apparel. Organized retailing in India currently stands at only 8 percent of the overall retail market of US\$ 550 billion. Within this, apparel has a share of approximately 8 percent. With growth of disposable income, favorable demographics, changing lifestyles and a high potential for penetrating non-urban metro markets; the share of organized markets in India is expected to reach 31 percent by 2025. India is also witnessing growth of its aspiring middle class who tend to seek value and consume premium products. This shift in number of households within different income brackets will improve the consumption of products and services, which will definitely include textile and apparel as a lifestyle choice to enhance fashion. The vast population base and growing economy has caused global retailers and brands to enter the Indian market, either on their own or through local partners.



## Indian Exports Overview

In terms of global ranking, India is ranked 2nd in textile export with 6 percent share and 5th in apparel export with 4 percent share. Overall, India holds second position with 5 percent share of global exports. India's textile and apparel exports were US\$ 37 billion in 2016. The exports have grown at 7 percent CAGR since 2005 and is further expected to grow at 9 percent CAGR to reach US\$ 80 billion by 2025. Category-wise, apparel exports are expected to grow faster at 11 percent CAGR and reach US\$ 42 billion from the existing US\$ 17 billion, while textile exports are expected to reach US\$ 38 billion growing at the lower rate of 7 percent CAGR. Availability of raw material, skilled manpower and favorable Central and State Government schemes would further help Indian exporters increase their market share and global competitiveness.

FIGURE 3: INDIAN TEXTILE AND APPAREL TRADE (US\$ BN)



Data Source: DGCI&S and Wazir Analysis

## Trends Driving Growth

### China slowdown presents an opportunity for India

In the recent years, China's growth in the global textile and apparel trade has slowed down. Between 2001 and 2016, Chinese apparel exports increased nearly by four times from US\$ 54 billion to US\$ 212 billion. However, the growth has slowed down in the last few years. This slowdown in growth is expected to remain over the next decade which will result in reduction of China's share in the global textile and apparel trade in the coming years. This reduction in China's share will lead to the generation of a gap of around US\$ 50 billion, which will serve as an opportunity for the competing nations to increase their share in the global trade by filling it. Textile manufacturing nations like Vietnam, Ethiopia, Kenya, Myanmar, Bangladesh and India etc., have an opportunity to fill this gap. As compared to all the nations mentioned above, India is the largest and more resourceful country which has the capability to take maximum advantage because of its huge textile base, manpower availability and infrastructure.

INDIAN CONSUMERS' AFFINITY TOWARDS BRANDS AND ORGANIZED RETAILING IS INCREASING, WHICH IS HELPING THE CONSUMPTION GROWTH OF ALL PRODUCTS, INCLUDING TEXTILE AND APPAREL.

### Increasing exports to USA

USA is the biggest market for India's export of textile and apparel products. India's exports to USA have increased at a healthy CAGR of 6 percent in the past five years. In 2016, 21 percent of the textile and apparel products exported from India were shipped to USA. Apparel and home textiles occupied more than 85 percent share of the US\$ 7.5 billion exports to USA. The exports of fiber has grown at an impressive growth of 16 percent in the last five years.

TABLE 3: T&A EXPORTS FROM INDIA TO USA (US\$ MN)

	2012	2013	2014	2015	2016	CAGR
<b>Fibre</b>	65	98	79	84	117	16 percent
<b>Yarn</b>	87	101	96	98	83	-1 percent
<b>Fabric</b>	277	321	307	320	321	4 percent
<b>Apparel</b>	3,051	3,661	3,586	3,774	3,820	6 percent
<b>Home Textiles</b>	2,270	2,719	2,631	2,821	2,786	5 percent
<b>Others</b>	240	339	333	338	411	14 percent
<b>Total</b>	5,991	7,229	7,033	7,436	7,538	6 percent

Source: UN Comtrade

FTAs with major markets will play an important role: India currently has 15 FTAs with 45 countries. However, for textile and apparel, only Japan and South Korea are the only two major markets amongst the pool of 45 countries. For India to solidify its position in the global trade of textile & apparel, it must have FTAs with the largest market in the world i.e. USA and EU to attain duty benefits and hence increase its exports.

## Challenges Faced by Industry

### High cost of capital

The lending rates in India are on the higher side as compared to its competing nations like China and Vietnam. The increased cost of capital affects the overall production cost and hence its competitiveness.

	India	China	Vietnam	Ethiopia
<b>Lending rate (%)</b>	11-12 %	5-6 %	6-7 %	6.5-7.5 %

### Low focus on technology and product development

Though India has one of the largest installed production base in the world, the industry suffers from the use of outdated technology especially in the power loom sector, processing, etc., as well as lack of amalgamation between information technology and machinery. Also, design and product development is a key area, which is yet to receive significant attention from the Indian textile and apparel industry. In general, spending on R&D, product development, etc., by textile companies in India is quite low. As a result, India has a nominal presence in high value added segments and innovation driven technical textile segment.

### Fragmented nature of industry

Indian textile industry is highly fragmented with dominance of unorganized sector especially in the fabric production, fabric processing and garment manufacturing. On the other hand, global competing nations like China, Bangladesh etc., work on the principal of large scale production with large manufacturing set-ups. The Indian textiles sector is dominated by SSI sector which have limited resources



and lack awareness thus, expansion of capacity and up-gradation of technology becomes a huge challenge. Due to this, Indian textile manufacturers are unable to offer better prices and cater to large orders.

### Lack of FTAs

India's competing nations like Bangladesh, Turkey, Cambodia, Pakistan, etc., have duty free access in the major textile markets of US and/or EU. Exporters from these countries enjoy duty advantage ranging from 10 percent to as high as 34 percent, depending on the product. However, India till date does not have any trade agreement with a major textile and apparel consumption base which could have helped in exponential growth of India's textile and apparel exports. These differential duty puts India in a weaker competitive position in the world market.

### Low Efficiency Levels

The overall productivity levels in the sector, especially in garment manufacturing are low as compared to its competing nations like China, Turkey, etc. One of the reasons is that the training infrastructure is not geared to meet the demand of skilled labour in the country.

INDIAN TEXTILE INDUSTRY IS HIGHLY FRAGMENTED WITH DOMINANCE OF UNORGANIZED SECTOR ESPECIALLY IN THE FABRIC PRODUCTION, FABRIC PROCESSING AND GARMENT MANUFACTURING.

## Way Ahead

Future opportunity in textile and apparel is beyond question but for businesses to gain market share, overall competitiveness will be the key in terms of cost, quality, compliances, logistics, services and product development. Achieving targeted growth would be a function of multiple factors including:

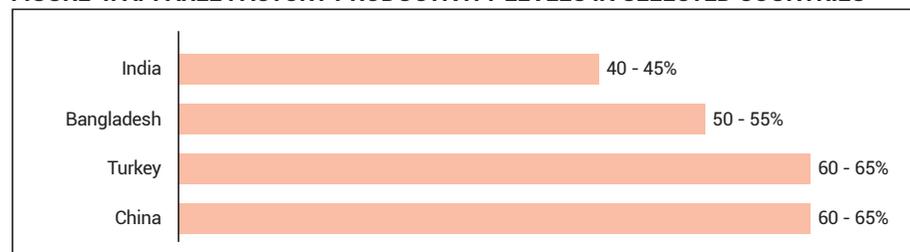
### Strong Policy Support

In order to increase the competitiveness of Indian players globally, a strong policy support is required from the government. The policy should focus on certain points including:

**R&D Support:** Though India is the 2nd largest exporter of T&A products globally, India's product basket is dominated by conventional products. This calls for a strong need for focus towards innovation and R&D which can help in developing products with high commercial acceptability. This can be done by creating Centres of Excellence (CoEs) and support them for initial years for industry participation. Also, the sector needs to be supported for deploying state-of-the-art modern technologies and adopting processes which are more efficient than the conventional ones.

**Training Support:** Availability of skilled and productive manpower is very crucial to achieve global competitiveness. As per skill gap assessment study, conducted by Ministry of Textiles, only 7 percent of the industries surveyed impart up-skill training. The Textile Skill Sector Council has already launched several programs, however they should be scaled up. Also, there is need to implement a program for assisting individual firms for providing qualitative training support at all levels in the organisation.

FIGURE 4: APPAREL FACTORY PRODUCTIVITY LEVELS IN SELECTED COUNTRIES



Data Source: Industry Feedback

**Attracting Large Scale Investment:** The textile and apparel sector of India is highly fragmented and dominated by MSME sector. To be globally competitive, it is required to promote large scale manufacturing set-ups for economies of scale. Incentives focused on technology up-gradation, capacity addition and long term development of the sector are crucial at this point of time. Improved investment environment will stimulate investments, provide technical know-how and develop state-of-the-art set-ups required for the sustainable development of the sector.

**Attracting FDI:** In order to get the desired technical know-how, and marketing network required to produce and sell high-end products competitively, special efforts should be made to attract FDI into the textile sector.

**Scheme to enhance quality and productivity:** There is a need to develop a scheme to support companies to work towards improvement in quality and productivity level in the sector. In order to achieve the desired objective, the Government may work with the Quality Council of India and the National Productivity Council.

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### Market Intelligence

Market intelligence forms an important part of growth as it helps the businesses to figure out the upcoming high traffic products and customers. It helps companies take decisions on taking the right move like entering into a new market, expanding an existing business, establish a distinctive identity or marketing around customer needs. Every product has a life cycle - innovation, introduction, growth, maturity and decline. All businesses that have product specific profiles face a similar maturity when the product is in its decline phase. To maintain the profitability of business, product extensions or brand innovation becomes important. Thus, identifying the right product at right time can help companies build their distinctive image. For example-the women's bottom wear leggings entered the Indian market just a few years back but gained quick acceptance and has turned into a ₹800 crores market. Market intelligence helps companies choose the correct way of diversifying their businesses. It may be extension of product lines, changing the target consumer base or entirely entering into a totally new segment. Continuous tracking of global and domestic trends is a must for any business and T&A is no exception, though the reality is that Indian T&A companies at large are yet to appreciate this aspect and establish such systems in-house.

### Product and Design Development

Product development involves modification of an existing product, or formulation of an entirely new product that satisfies a newly defined customer want or market niche by offering additional benefits. It has become important for companies to assess the





gap in market and come up with new or improved products to have an advantage over competitors. A successful product development strategy can help businesses increase revenue and gain profitability. Product development has been adopted by numerous businesses to stay competitive in the market. For example- Nike came up with the Dri-fit fabric which was an unheard product initially but later took the sportswear industry by storm. Several global companies follow the approach of increasing revenue through product development. For example, Freudenberg, world's 2nd largest nonwovens company invested US\$ 350 million of its sales in research and development, which is 4.2 percent of its sales of US\$ 8,400 million. Additionally, it engaged nearly 2700 employees into its R&D sector. Freudenberg measures the effectiveness of its R&D activities as the share of new products which was nearly 25 percent of its total sales.

### **International Partnership**

With an emphasis on product development, many companies have started exploring potential tie-ups or partnerships with international players be it for manufacturing, marketing or brand licensing. Such collaborations help the company upgrade in terms of skill sets, manufacturing capacity, design and operational efficiency as they get an access to the partner company's valuable resources including market foot-print.

### **Productivity Enhancement**

The demand for higher value at lower price strongly drives the need for productivity enhancement. As mentioned above, Indian garment units operate at

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a lower productivity levels than their counterparts in countries like China, Bangladesh, Turkey, etc. Fragmented nature of industry, management mind set, lack of best practices and technical knowhow and higher attrition rate are some of the major reasons which are responsible for this position.

In simple terms, higher productivity means higher output from the same set of manufacturing set-up. With higher production, the variable cost of production (fabrics, trims, etc.) will increase proportionally but the fixed costs (overheads, depreciation, etc.) remains unchanged which improves the bottom-line. The importance of higher productivity cannot be overstated. Not only it leads to cost competitive manufacturing but it enables companies to improve their lead time and execute larger orders. Productivity improvement in an apparel factory can be achieved by focusing on all entities of a manufacturing ecosystem- manpower, machine, material and capital. The key components of what is referred to as 'Factory re-engineering programme' are production planning and control, systems and processes at shop floor, workforce training, use of work aids and factory layout planning. It is estimated that 15 percent improvement in productivity in apparel units can result in improvement of EBIDTA by 30 percent, even after paying higher wages to workers in form of production incentives. At a country level, presence of efficient firms would increase India's overall image in the world market attracting larger orders and also enhance wage earning opportunities of the workforce.

## Conclusion

Looking at the macro economic factors and emerging trends, we believe that the real growth phase of industry is about to start. For Indian industry, these are specifically interesting times. India stands a chance to gain prominent market share because of China's growth slowdown, supporting Government policies and a strong raw material base. The fact that India's own domestic demand is also large and growing is icing on the cake. It is envisaged that Indian market will continue its upward trajectory in years to come leveraging its inherent strengths. Strong government support combined with industry collaboration will facilitate in achieving set targets for the sector. ●