



Competitive, Compliant and Credible

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Emergence of India as the most competitive apparel manufacturing destination

Apparel is among the basic necessities of life and hence holds an important share in household expenditure across the globe. In developed countries about 3 to 4% of consumer's total expenditure is on apparel while in developing nations it stands at 7 to 10%. Global apparel consumption (retail level) is estimated to US\$ 1.7 trillion in 2015 with EU and USA being the largest markets.



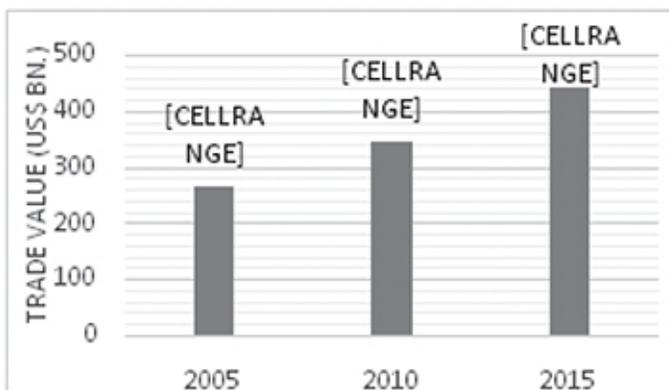
productive jobs are generated for every crore rupee invested in an organized apparel manufacturing set-up. This is substantially higher than other industry segments such as paper, electronics, metal, automobiles etc. The fact that industry is not very capital intensive and modular expansions are possible have additionally caused developing countries to provide special focus to this industry.

Table 1: Global Apparel Market Size (2015)

S. No.	Region	US\$ bn.
1	EU-28	350
2	USA	315
3	China	237
4	Japan	93
5	India	59
6	Brazil	56
7	Russia	40
8	Canada	25
	Others	510
	Total	1,685

Source: Wazir Advisors

A substantial part of apparel sold in developed economies is manufactured in developing nations, mainly to take advantage of lower costs of manufacturing there. As a result, the global trade of apparel is also quite large. In 2015, the global apparel trade was estimated at US\$ 443 bn. which has grown at a Compounded Annual Growth Rate (CAGR) of 5.2% since 2005.



Apparel manufacturing in a country is not only important to cater to one of the basic needs of life or for generating foreign exchange but another very important aspect is its employment generation potential. The industry benchmark is that 70 direct,

India is the 5th largest market and 5th largest exporter of apparel. The export side of our market has underperformed smaller exporting nations of Bangladesh and Vietnam in recent times. With TPP implementation, Vietnam can be a much stronger player in US market. Ethiopia and Myanmar are the other dark horses which are expected to pose challenge in future.

The story may appear not very cheerful in the first look for Indian garment producers. But a closer, rational look considering some recent developments indicate otherwise. Let us discuss three points in detail to understand how.

Point 1: Recent policy initiatives have made India as one of the most cost competitive manufacturing destination.

The common understanding is that India's competitiveness suffers mainly because of three reasons:

- Competing countries get duty free market access to EU & US while India does not
- Wage rates are higher in India than countries like Bangladesh, Ethiopia, Myanmar, etc.
- Cost of capital is higher in India than China, Turkey, Vietnam, etc.

The statements are correct but the recent policy package announced by Government has taken care of all these challenges.

In EU market, Bangladesh and Turkey get duty free access while apparel exports from India are levied with 9.6% tariff. In US market, African and US' neighbouring countries get duty free access while a duty from 8% to 32% is levied on Indian apparel exports to US. To compensate the duty disadvantage, as on date following direct benefits are made available to an Indian exporter:

- Duty drawback in the range of 7.2% to 10.5% (without Advance authorization, without CENVAT)
- Rebate of State Levies (ROSL) in the range of 2.65% to 3.9% (without Advance authorization, without CENVAT)
- Merchant Exports from India Scheme (MEIS) in the range of 2 to 3%

Thus, an Indian apparel exporter gets 12 to 17% of FOB value which not only covers the duty paid for manufacturing but

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also negates a large part of the duty disadvantage faced in EU and USA. Such high drawbacks are not available in countries which have duty free access to EU and USA.

It is also important to note here that though Chinese get a 17% duty drawback but they do not have zero duty access anywhere and yet they dominate the world trade. On the other extreme are nations like Mexico and Africa which despite having zero duty access to USA are losing their market share there.

In terms of wages, China is four times higher than India yet the Chinese exports have not reduced drastically. Wages in Italy are about 25 times than in India, yet its apparel exports are higher than India. The issue in India is not higher wages but is lower manpower output and focus on basic products. Indian factories in general operate at a productivity level of 45 to 50% whereas those in China, Turkey and Sri Lanka operate at 60% plus. As a result, the wage cost component in India appears high in the product costing. However, under Pradhan Mantri Rozgar Protsahan Yozana (PMRPY) the entire 12% employer's contribution to EPFO for new workers for 3 years is being provided. In addition, several States provide direct support to apparel manufacturers:

a. Jharkhand Government provides employment generation subsidy of Rs. 5000 per month per worker (Rs. 6000 in case of SC/ST or women workers) and ESI up to Rs. 1000 per month per worker for 5 years.

b. Odisha state provides one-time training subsidy in the range of Rs. 2,500 to 4,000 per trainee and ESI & EPF reimbursement in the range of 50% to 100% for 3 to 5 years.

c. Haryana state provides employment generation subsidy of Rs. 10,000 per worker as one-time support.

The implication of these schemes is that the effective wages in a new garment factory located in specific areas in certain states and employing mostly women or SC/ST workforce are not very far from those in Ethiopia.

To compensate for higher interest rates in India, again there are multiple Government schemes:

a. TUFs in its latest avatar has replaced the interest subsidy component with the capital subsidy that reduces the overall capital requirement

b. Exporters can avail 3% pre and post shipment credit under Interest Equalization Scheme

c. Several states also provide interest subsidies on term loans to an extent that effective rate of interest is around 7%.

Apart from cost competitiveness, India's another strength lies in its better environmental and social compliance status than many of the competing nations.

Point 2: Exports is just one aspect of manufacturing. Indian

domestic market in future is going to be extremely attractive in terms of size as well as growth.

At retail level, India's domestic apparel consumption is estimated at US\$ 59 bn. which converts to approximately US\$ 28 to 30 bn. of Value of Production (excluding retail mark-ups). Indian economy is poised for a robust growth over next decade which will translate into a proportionate growth in consumer demand with apparel segment being a major beneficiary. India's demographic dividend and increase in consumer's ability & willingness to spend will lead to high growth of apparel consumption. It is projected that by 2025, the apparel market will add approximately US\$ 122 bn. (approx. 50 to 55 bn. in value of production). This market growth will benefit national textile and apparel manufacturing firms the most. Even international retailers would prefer buying locally in medium term than importing to control the lead times and cost. Sourcing requirement clause for international retailers, as mandated by Indian government, will further aid the cause. Growth in retail front will lead to a trickle-down effect in the local manufacturing value chain benefitting national manufacturers the most. Huge growth will make domestic market more attractive than exports in many cases for national manufacturers.

Point 3: Structural changes in Indian economy are rapidly improving ease of doing business.

India is gaining international community attention because of a wave of important structural changes. India is now among the top 10 destinations for FDI as per World Investment Report, UN. India currently ranks 39 in the Global Competitive Index rising 16 ranks from the previous year's position of 55, as per by World Economic Forum. In World Bank's Ease of Doing Business ranking India was ranked 130 in 2015 but is expected to break into the top 100 this year. The Make in India campaign of Government specifically aims at improving the ease of doing business in India. Increase in FDI caps in key sectors, fast-tracking large infrastructure projects, digitalization of credit / subsidy transfers, Skill India are some of the other initiatives which would help in overall improvement of investment climate. Lastly, implementation of GST from 1st April 2017 would be a big step towards simplification of business processes as it will eliminate multiple levies and simplify processes.

In today's scenario, Indian apparel industry stands a chance to gain in a big way from the global and domestic opportunities by exploiting the enabling business environment being developed in the nation.

However, the industry has already lost a major opportunity in the year 2005 when the quotas were phased out. Apparel business, which got de-reserved in 2000, failed to grow because

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VFY demand growth is being fuelled by womens fashion wear

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TT: What are the expansion plans of VFY industry, particularly, Indian Rayon?

MR. SHAIENDRA PANDEY: The demand for high quality superfine yarns continues to dominate as consumers are looking for more rich and luxurious fabrics. Indian Rayon have always kept the consumer need and market requirement in mind while planning in present and for future.

Indian Rayon, today, is well equipped with the patented German technology of Spool Spun Yarn (SSY) that has uniform cross sectional properties, high tensile strength, uniform elongation, high brightness and whiteness properties in addition to other VFY properties – best to produce superfine yarns. This product is well established now among the textile fraternity and Indian Rayon look forward to growing the same.

Indian Rayon follows a focused customer orientation in product portfolio management and looks to re-align and increase capacities through de-bottlenecking

TT: What kind of short term and long-term growth do you envisage VFY in India?

MR. SHAIENDRA PANDEY: India is now attracting reputed international fashion designers, retailers and brands for whom India has become most favorite destination. Fashion has spread out and no longer confined to high end magazines and labels. The modern urban Indian middle class today select a

designer wear off & on. People want to look good and experiment with new designs. They don't hesitate to spend proportionately for designer apparels for their wardrobes. This has led to choice of fabrics which is important for styles, cuts and prints.

This is very encouraging for the upstream industries of fibres and yarns. As the end consumer becomes more discerning regarding choice of fabrics also alongside prints and designs, there will be specific demands for raw material inputs and people will be willing to pay the price. In case of VFY, this is particularly very satisfying as there are unique properties of drape, luster, color brilliance, softness coupled with comfort and skin-friendliness that renders itself beautifully to a fabric and garment. Thus, more and more consumers will be able to seek the right kind of VFY fabric for apparel which will fuel sustainable growth.

TT: What support is needed from the government to take Indian VFY industry to new heights?

MR. SHAIENDRA PANDEY: The Indian VFY industry is capable and competent from technology and operations standpoint when compared to global suppliers. However high capital cost has continued to retard growth of capacities. There is scope for capacity expansion for tapping export markets which are dominated by China. Leveraging Prime Minister's 'Make in India' mission and Government's support for faster clearances and interest subsidies through TUF schemes will encourage growth of industry. Faster implementation of GST will help growth and consumption. Apparel/Fabric labeling should be pursued and labeling should be made a norm so that consumers are aware what they are buying and paying for. Innovations in the industry should be encouraged.

Cotton prices are likely to fluctuate in a narrow range this year

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TT: What is your long term outlook of Indian cotton? Can India reach the level of 1000 kgs. per hectare?

MR. SHIRISH SHAH: Long Term Outlook of Indian Cotton can yield reach 1000 Kg/Ha : The Long Term Outlook of Cotton is not very good unless our prices of Cotton are on par or lower than International prices. Our Cotton quality is going down as well as the quality of Ginning. Contamination is our major chronic problem, which can only be controlled or eliminated by all those handling Cotton.

Better yields will bring down Farmers' Cost and better Ginning Outturn as well as Uniform Taxes will bring down Ginners' cost. Better Seed and better Farm management will improve the quality and pave the way for higher consumption.

In USA Fibremax Cotton fetches 20% premium due to a guarantee for quality. We can get a premium for our entire Production of Cotton if all in the Cotton chain are aware and educated about Cotton, its handling, processing and fibre quality.

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of inertia of entrepreneurs and wait-and-watch approach. Repetition of same fate has to be avoided at this juncture by taking meticulously planned and well informed decisions swiftly.

The projections of China vacating some space in global trade can be the biggest opportunity for Indian exporters provide they can match the capacities, product diversity and service levels desired by the large buyers.

