

New government's initiatives major thrust for Indian textile sector

The Indian textile industry is one of the largest in the world with a massive raw material and manufacturing base. The economy is largely dependent on the textile manufacturing and trade in addition to other major industries since 27% of the foreign exchange earnings are on account of export of textiles and clothing alone. The textiles and clothing sector contributes about 14% to the industrial production and 3% to the gross domestic product of the country. Around 8% of the total excise revenue collection is contributed by the textile industry. Also, the textile industry accounts for 21% of the total employment generated in the economy. Around 3.5 crore people are directly employed in the textile manufacturing activities. Indirect employment including the manpower engaged in agricultural based raw-material production like cotton and related trade and handling could be stated to be around another 6 crore.

The industry has been in limelight off lately on account of various initiatives taken by the new government, which includes setting up of Integrated Textile Parks, which is one of the flagship schemes of the Ministry of Textiles; measures to boost exports which includes hike in duty free entitlement to garment exporters for import of trimmings, embellishments and other specified items increased from 3% to 5% and proposal for imposing duty on branded items being dropped, providing relief to the entire value chain. Among other things, the government has taken up also skill development programme for training 5000 carpet weavers through the Carpet Export Promotion Council (CEPC).

Performance of Textile Industry:

Textile Production

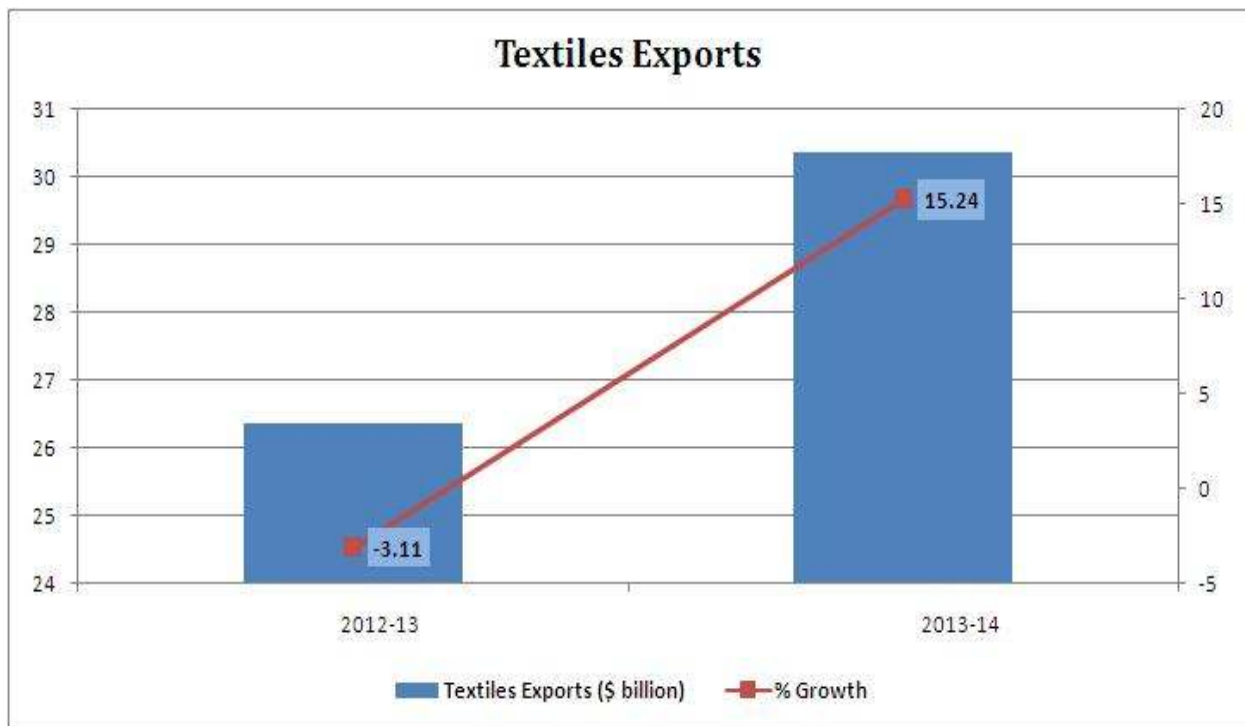
The industry's total cloth production has increased by 1.8% during April-July, 2014 as compared to the similar period the previous year, with all the sub-sectors recording growth in production in the range of 3% to 8%. However, the segments which have registered de-growth of 2% and 3.6% respectively were Manmade Filament Fibre and Hand Loom segment respectively. On the flip side, strong production growth of 6.2% and 8.0% was witnessed in Mill sector and Hosiery segment.

Production of Textile Items		(In Million)		
	Unit	Apr-July13 (P)	Apr-July14 (P)	% Variation
Manmade Fibre	Kg	433	446	3
Manmade Filament Fibre	Kg	443	434	-2
Cotton Yarn	Kg	1281	1326	3.5
Blended & 100% Non-Cotton Yarn	Kg	443	466	5.2
Total Spun Yarn	Kg	1724	1792	3.9
Mill Sector	Sq.mtr.	821	872	6.2
Hand Loom	Sq.mtr.	2388	2303	-3.6
Power Loom	Sq.mtr.	12682	12706	0.2
Hosiery	Sq.mtr.	5302	5727	8
Total	Sq.mtr.	20372	20736	1.8
(P-Provisional)				

Textile Exports:

On the back of weaker rupee and firm overseas demand, textile exports summed up to the worth of \$30.37 billion in FY14, up from \$26.36 billion in the previous year , which translated into a growth of 15.24%, compared to a decline of 3.11% in FY13. All major segments in the sector grew at a healthy rate. Readymade garments, which accounts for nearly half of all textile exports at \$14.93 billion, grew by 15.53%. Cotton yarn and fabrics grew 18% to \$8.88 billion, while manmade textiles grew nearly 13% to \$5.69 billion.

Further, according to commerce ministry data, the share of textiles in exports earnings increased from 8.78% in FY13 to 9.72% in FY14. Overall exports grew 4% to \$312.6 billion in the year ended March 2014. Had textile exports remained unchanged, overall export growth would have been less than 3%.



India's cotton and apparel exports are reportedly set to climb by around 10% this year as higher wages, political instability and concerns about workplace conditions in other producing markets would push international buyers toward Indian exporters.

The rise in textile shipments from India - currently around 4.5% of world trade is expected to eat into top exporter China's 36% share of the market and will be a positive for Indian textile merchants keen to exploit rising demand stemming from weak cotton prices and global economic growth.

Problems/Challenges:

Obsolete Technology: The plant, machinery and technology employed by a number of units are obsolete. The need of the hour is to make the industry technologically up-to-date rather than expand capacity as such. This need was foreseen quite sometime back and schemes for modernisation of textile industry had been introduced. However, the problem has not been fully tackled and it is of utmost importance that the whole industry is technologically updated.

Change in China's Textile Policy: The Indian textile industry is likely to face challenging times in the coming months with China effecting a change in its cotton policy, rising cost of production and net margins rarely crossing 4%.

With China, the largest producer, consumer and exporter of cotton, changing its policy on sourcing cotton and yarn, the export of both, the white fibre and yarn to China from India could take a beating this year.

According to Northern India Textile Mills' Association, the cotton exports, which stood at 11 million bales (1 bale equals 356 kg) in the 2013-14 cotton season, could slide to 6-7 million bales in the 2014-15 season due to poor demand from China.

China is currently carrying high cost cotton inventory. It has built huge stockpile after buying the fibre at a reserve price of \$1.34 a pound when prices in the global futures market were ruling at over \$2. Saddled with high price stock, the country is now planning to reduce the inventory of cotton, besides cutting down yarn production.

Tariff barrier: The industry is handicapped by tariff barrier, while competing countries such as Pakistan, Bangladesh, Cambodia and Vietnam have negligible duty. For instance, Europe imposes 4% duty on yarn, 8% levy on fabrics and 12% duty on garments imported from India, while shipments from Pakistan, Bangladesh and Cambodia are duty free. China levies the highest duty of 14% on garments, 8.5% on fabrics and 3.5% on yarn while Pakistan can export garments and fabrics duty free and pays only 3.5% on yarn. Canada imposes tariff of 17.5% on garments imported from India.

It is in this context, the textile industry has urged the Government to increase the export incentives under the Focus Product Scheme to 7% from 2% in order to overcome the tariff barriers imposed by major importing countries such as from the European Union, Canada and China.

Positives/ Opportunities for the sector:

Huge potential for India-Vietnam textile trade: There is immense potential for India-Vietnam textile trade, especially since India accounts for only 2% of all Vietnamese import of garment input materials at present. At present, Vietnam meets only 50% of its material demand for

production of garments, and this provides a good opportunity for Indian companies to invest in Vietnam's textile industry.

India currently has 13.52% of global market share in these materials. On the other hand, Vietnam is one of the world's leading garment exporters, which is dependent on import of materials.

In 2013, India-Vietnam bilateral trade surged at 30 % year-on-year to touch \$ 5.2 billion. Both countries aim to increase their bilateral trade value to \$15 billion by 2020.

Changing Demographics, Rising incomes: India's growing population has been a key driver of textile consumption growth story in the country. It has been complemented by a young population, which is growing and at the same time is exposed to changing tastes and fashion. Further, driving this factor is rising female work-force participation in the country. Besides this, rising income has been a key determinant of domestic demand for the sector, with income rising in the rural economy as well; the upward push on demand from the income side is set to continue.

Non-Compliance of factories in Bangladesh & Cambodia: Cambodia and Bangladesh, which are big manufacturers and exporters of textile, are infamous for continuous strikes and high levels of corruption. Both these factors have an adverse impact on the country's garment sector. The tragic incidents of Rana Plaza and Tazreen in Bangladesh followed by continuous lockouts in Cambodia have put this industry under close scanner in the international arena. Recently, also inspectors hired by group of Western Clothing brands, as part of an initiative launched after a building collapse last year, which killed more than 1,100 workers, found safety problems at Bangladesh factories.

An Accord was established after the collapse of the eight-storey Rana Plaza building in 2013, which exposed the inadequacy of the safety regime in Bangladesh. More than 180 clothing brands and retailers, including the world's biggest fashion chains Inditex and H&M, joined the Accord and indentified more than 80,000 safety issues. This situation again offers a big potential for the Indian textile industry. Since, most reputation-conscious buyers only associate with factories with adequate compliance standards. Non-compliances, especially in the area of child labour and health and safety usually lead to immediate and permanent delisting from a retailer's supply books.

Recent Developments:

'Budget 2014-15':

Mega Cluster: Finance Minister Arun Jaitley has proposed setting up of new textile mega clusters in his maiden Budget in the Parliament today. The mega-clusters will be set up at Bareilly and Lucknow in Uttar Pradesh, Surat and Kutch in Gujarat, Bhagalpur in Bihar, Mysore in Karnataka, and one in Tamil Nadu. For this, a sum of Rs 200 crore has been allocated.

Trade Facilitation Centre: In Budget 2014-15, the Finance Minister also proposed to set up a Trade Facilitation Centre and a Crafts Museum with an outlay of Rs 50 crore to develop and promote handloom products and carry forward the rich tradition of handlooms of Varanasi, where a textile mega-cluster would also be supported.

Other Announcements:

- Among other new announcements, a Pashmina Promotion Programme (P-3) and a programme for the development of other crafts of Jammu & Kashmir will be started with an initial outlay of Rs. 50 crore.
- A sum of Rs 30 crore has been allocated for setting up a Hastkala Academy for the preservation, revival, and documentation of the handloom/handicraft sector in Public-Private Partnership (PPP) mode in Delhi.
- Further, to boost domestic manufacture as also to address the issue of inverted duties, the Finance Minister proposed reduction of the basic customs duty (BCD) on specified inputs for manufacture of spandex yarn from 5 % to Nil.

Technology Upgradation Fund Scheme (TUFS): The Cabinet Committee on Economic Affairs late in August gave its approval for continuing the Technology Upgradation Fund Scheme (TUFS) during the 12th Plan period with a major focus on powerlooms in accordance with the Budget announcement for the financial year 2013-14.

The total budget outlay for continuation of the scheme will be about Rs 11,900 crore, out of which Rs 2,400 crore have been allocated for the financial year 2013-14. The scheme is one of the flagship schemes of the Ministry of Textiles and has helped the industry to garner investments of Rs 2430 crore. The scheme is expected to generate 11.5 % annual growth in volume terms in cloth production and 15 % in value exports by increasing domestic value addition and technological depth and by enhancing the global competitiveness of textiles products to generate an additional employment to 15.81 million workers.

The major features of the scheme are:

- To promote indigenous manufacturing of the textile machinery, Interest Reimbursement (IR) on second hand imported shuttleless looms shall be reduced from 5 % to 2 %. On the other hand, for new shuttleless looms capital subsidy would be raised from 10 % to 15 %, IR from 5 % to 6 %, Capital Subsidy from 10 % to 15 % and margin money subsidy from 20 % to 30 % with an increase in subsidy cap from Rs 1 crore to Rs 1.5 crore.
- Capital subsidy for handloom and silk sectors would be increased from 25 % to 30 %. In addition to this, margin money subsidy cap would be increased from Rs 45 lakh to Rs 75 lakh in respect of MSME and Jute sectors.
- Sectoral cap of 26 % will be applicable only for the spinning segment and sectoral caps for all other segments have been removed to enable balanced growth across the value chain.

- A pilot project for Hire-Purchase of new shuttleless looms shall be introduced with a plan outlay of Rs 300 crore within TUFs to enable poor powerloom weavers, having limited capacity to make capital investments, to upgrade their looms through payment of easy installments

'Make in India' campaign:

A 'Make in India' campaign covering 25 sectors, including the textile and garment industry, has been unveiled by the Prime Minister in the presence of big names from the corporate world of India and abroad at a ceremony in New Delhi.

The 'Make in India' scheme also puts in place the logistics and systems to address in a timely manner queries of potential investors. At Present, the Government of India allows 100% foreign direct investment (FDI) under the automatic route in the textile sector, subject to all applicable regulations and laws, which effectively backs the Make in India program for the textile and garment industry.

Under the 'Make in India' initiative, investment opportunities for foreign companies and entrepreneurs are available across the entire value chain of synthetics, value-added and speciality fabrics, fabric processing set-ups for all kinds of natural and synthetic textiles, technical textiles, garments, and retail brands.

Outlook:

The outlook for the Indian textile industry looks promising for medium to long term, buoyed by both strong domestic consumption as well as export demand. With consumerism and disposable income on the rise, the retail sector has experienced a rapid growth in the past decade, which can be gauged by number of international players entering the Indian market. Additionally, the new government's initiative, especially those announced in Budget 14-15, to boost the sectors growth also adds to the positive.

However, the industry also faces certain headwinds on account of inflationary conditions, policy changes, tariff barriers among others. Nevertheless, huge potential for India-Vietnam textile trade, non-compliance of large number of factories in Bangladesh, changing demographics and rising incomes among others also provide India a big opportunity in view of its relative advantage. However, to be more competitive and capture the space in market left by China and Bangladesh, the industry has to be competitive in pricing, apart from meeting strict timelines and being quality conscious.

Companies Financial Data In Industry

Company Name	CMP	MCAP (Rs Crore)	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Page Industries Ltd.	8708.95	9713.85	307.78	0.69	147.91	58.88
Ruby Mills Ltd.	274.00	229.06	365.93	0.73	78.56	3.49
Siyaram Silk Mills Ltd.	722.20	676.99	406.66	1.11	68.72	10.51
Kewal Kiran Clothing Ltd.	1756.45	2164.83	245.04	1.20	53.31	32.95
Super Sales India Ltd.	330.50	101.51	295.53	0.76	46.39	7.12
Rajapalayam Mills Ltd.	344.10	253.81	267.46	2.18	40.73	8.45
KPR Mill Ltd.	297.20	1119.94	210.21	2.36	36.10	8.23
Amarjothi Spinning Mills Ltd.	80.00	54.00	119.44	2.50	29.48	2.71
Century Enka Ltd.	153.30	334.97	320.09	3.91	25.80	5.94
Mandhana Industries Ltd.	249.10	825.12	162.89	0.80	19.88	12.53
Sudar Industries Ltd.	36.60	82.35	96.05	0.00	18.72	1.95
Indian Terrain Fashions Ltd.	337.00	191.80	67.07	0.00	18.17	18.55
Raymond Ltd.	480.90	2951.81	173.85	0.42	16.19	29.70
Orbit Exports Ltd.	289.90	414.53	54.73	1.12	15.50	18.70
Arvind Ltd.	291.70	7532.95	95.84	0.81	15.31	19.05
Kitex Garments Ltd.	473.30	2248.18	43.77	0.21	13.93	33.98
Garware-Wall Ropes Ltd.	157.35	344.31	130.01	1.72	13.80	11.40
Jindal Worldwide Ltd.	110.45	221.47	72.65	0.45	13.04	8.47
Lovable Lingerie Ltd.	362.15	608.41	119.35	0.69	10.97	33.00
Kandagiri Spinning Mills Ltd.	69.60	26.79	78.14	0.00	9.69	7.19
Welspun India Ltd.	287.85	2890.79	115.18	1.04	9.46	30.42
Nandan Denim Ltd.	43.30	197.23	50.05	2.77	9.06	4.78
Salona Cotspin Ltd.	24.95	13.13	40.31	4.81	8.80	2.83
Rupa & Company Ltd.	226.00	1797.26	36.19	1.11	8.02	28.19
Pearl Global Industries Ltd.	224.35	486.03	129.79	0.89	7.81	28.73
Suryalakshmi Cotton Mills Ltd.	113.90	189.90	141.34	1.05	7.57	15.06
Zodiac Clothing Company Ltd.	391.00	759.03	91.51	1.15	7.50	52.17
Morarjee Textiles Ltd.	48.45	176.03	29.07	5.06	7.47	6.49
Himatsingka Seide Ltd.	90.30	889.07	63.17	1.66	6.85	13.17
Maral Overseas Ltd.	23.00	95.47	14.58	0.00	5.93	3.88
Modipon Ltd.	17.81	13.96	-105.17	0.00	4.98	3.58
Mudra Lifestyle Ltd.	11.80	56.63	-31.85	0.00	4.15	2.84
Trident Ltd.	31.55	1415.00	29.24	0.95	4.13	7.64
Ginni Filaments Ltd.	13.17	93.05	18.83	0.00	4.08	3.23
TT Ltd.	50.25	108.03	27.51	1.99	3.53	14.24
BSL Ltd.	28.65	29.49	65.17	3.49	3.35	8.55
Sumeet Industries Ltd.	14.75	85.61	35.61	0.00	3.18	4.64
VTM Ltd.	23.15	93.13	29.08	3.02	2.75	8.42
Alok Industries Ltd.	11.69	1609.85	38.93	2.57	2.68	4.36

Momai Apparels Ltd.	99.50	143.57	41.95	0.50	2.26	43.93
CIL Nova Petrochemicals Ltd.	16.00	21.68	6.48	0.00	2.23	7.18
Gokaldas Exports Ltd.	63.65	219.94	34.34	0.00	1.86	34.22
Arrow Textiles Ltd.	12.04	22.93	13.90	0.00	1.85	6.50
Nahar Poly Films Ltd.	24.10	59.26	58.70	0.00	1.67	14.43
Filatex India Ltd.	34.50	110.40	51.32	0.00	1.64	21.07
Mohit Industries Ltd.	33.65	47.64	33.19	0.00	1.58	21.25
Future Lifestyle Fashions Ltd.	90.00	1532.39	83.28	0.44	1.13	79.85
Rai Saheb Rekhchand Mohota Spinning & Weaving Mills Ltd.	96.10	120.18	25.63	0.11	0.92	104.50
Maxwell Industries Ltd.	25.20	158.95	14.75	0.79	0.85	29.52
SPL Industries Ltd.	10.78	31.26	9.36	0.00	0.76	14.21
Weizmann Ltd.	10.89	18.81	32.50	4.59	0.65	16.73
Punjab Woolcombers Ltd.	3.31	10.76	13.20	0.00	0.60	5.51
Shekhawati Poly-Yarn Ltd.	1.82	40.06	3.38	0.00	0.27	6.70
Swan Energy Ltd.	55.60	1229.76	19.95	0.27	0.26	217.70
Rajasthan Petro Synthetics Ltd.	7.86	11.79	-1.98	0.00	0.14	56.41
Bombay Dyeing & Manufacturing Company Ltd.	64.00	1321.82	20.17	1.25	-0.08	0.00
Birla Cotsyn (India) Ltd.	0.12	32.02	0.42	0.00	-0.26	0.00
AI Champdany Industries Ltd.	18.05	49.49	27.75	0.00	-0.39	0.00
Celebrity Fashions Ltd.	16.55	64.55	-6.12	0.00	-0.39	0.00
Digjam Ltd.	7.50	65.73	0.61	0.00	-0.43	0.00
Integra Garments And Textiles Ltd.	2.56	9.30	-1.67	0.00	-0.83	0.00
Aarvee Denims & Exports Ltd.	46.40	108.85	109.15	0.00	-0.91	0.00
Supreme Tex Mart Ltd.	13.33	90.95	28.88	0.00	-1.34	0.00
Provogue (India) Ltd.	8.18	93.54	47.44	0.00	-2.02	0.00
Bombay Rayon Fashions Ltd.	145.00	1951.70	198.61	0.00	-2.68	0.00
Nakoda Ltd.	2.93	87.90	16.57	10.24	-2.76	0.00
Spentex Industries Ltd.	5.75	51.62	-8.59	0.00	-2.86	0.00
First Winner Industries Ltd.	4.24	21.30	30.35	0.00	-3.38	0.00
Cantabil Retail India Ltd.	25.50	41.64	42.86	0.00	-4.35	0.00
Eastern Silk Industries Ltd.	2.18	17.21	-3.12	0.00	-5.89	0.00
Ashima Ltd.	8.45	28.20	-101.72	0.00	-6.27	0.00

Source – Ace Equity

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