

## Outlook for textile sector looks promising post GST

August 05, 2017

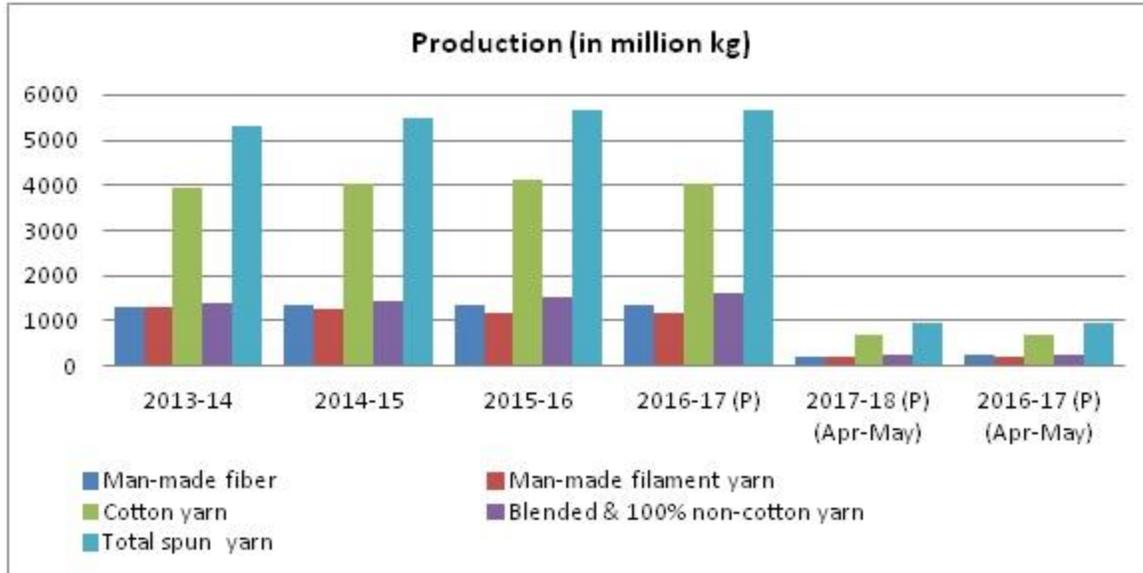
Indian Textiles industry extends from the hand-woven sector on one end to the capital intensive mill sector on the other. The industry has inherent linkage with agriculture and with the culture & traditions of the country making for its versatile spread of products appropriate for both domestic and the export. The segments include the decentralized power looms, hosiery and knitting sectors; the handloom and handicrafts segments; as also the wide range of fibres which include man-made fibre, cotton, silk, jute and wool. The textile industry contributes 10% of manufacturing production, 2% of country's GDP and 13% of the country's export earnings.

The extensive range of the Indian textiles sector includes the Cotton segment, the Organized Textile Mills, the Man-Made Fibre and Filament Yarn Industry, Wool and Woollen Textiles, Sericulture and Silk Textiles, Power looms, Handlooms, Handicrafts, Jute and Jute Textiles, and Apparel & Garments. The size of India's textile market in 2016 was around \$137 billion, which is expected to touch \$226 billion market by 2023, growing at a CAGR of 8.7% between 2009-23E. The textile industry is one of the largest sources of employment generation in the country with over 45 million people employed directly.

The government's central focus has been on increasing textile manufacturing by building the best-in-class manufacturing infrastructure, up-gradation of technology keeping view with the goal of making India's development inclusive and participative. The government has notified the Amended Technology Up-gradation Fund Scheme (A-TUFS) for technology up-gradation of the textiles industry with one time capital subsidy for eligible benchmarked machinery. Segments which have got higher employment and export potential such as Garmenting and Technical Textiles are eligible for Capital subsidy at the rate of 15% subject to a cap of Rs 30 crore. Segments such as Weaving for brand new Shuttle-Less Looms (including weaving preparatory and knitting), Processing, Jute, Silk and handlooms are eligible for subsidy at the rate of 10% subject to a cap of Rs 20 crore. Budget provision of Rs 17,822 crore has been approved for seven years from 2015-16 to 2021-22. The scheme will attract an investment of Rs 1 lakh crore and generate employment of 30.51 lakh.

### **Production of Man-made fibre, filament yarn, spun yarn and cloth**

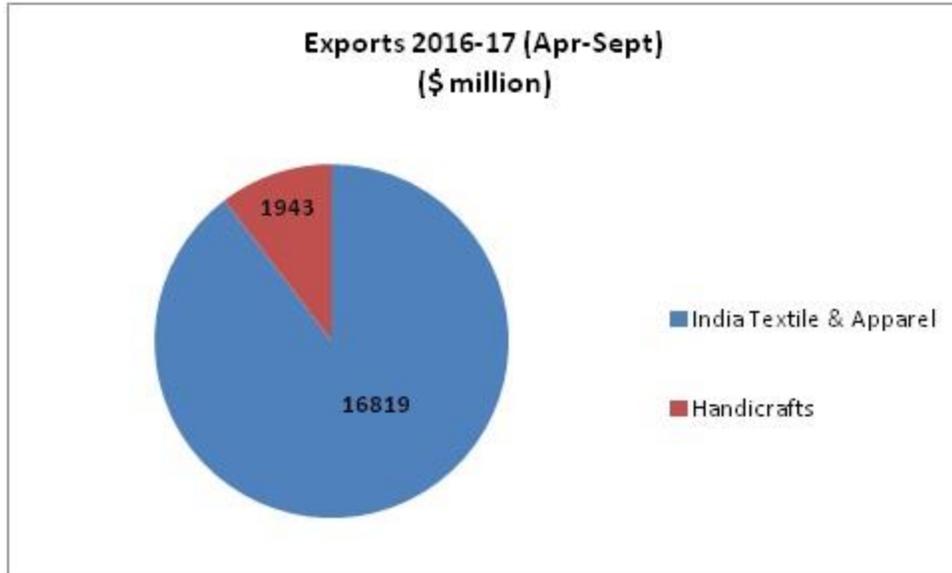
Man-made fibre production decreased by 3% and filament yarn production increased by 7% during April-May 2017-18 as compared to same period of the previous year. The production of cotton yarn decreased by 3% during April-May 2017-18. Blended and 100% non-cotton yarn production decreased by 2% during the year April-May 2017-18. Cloth production by mill sector decreased by about 5% during April-May 2017-18. The cloth production by decentralized sector decreased by 1% during April-May 2017-18 as compared to same period of the previous year. The total cloth production during April-May 2017-18 has also decreased by 2% compared to same period of the previous year.



### Exports

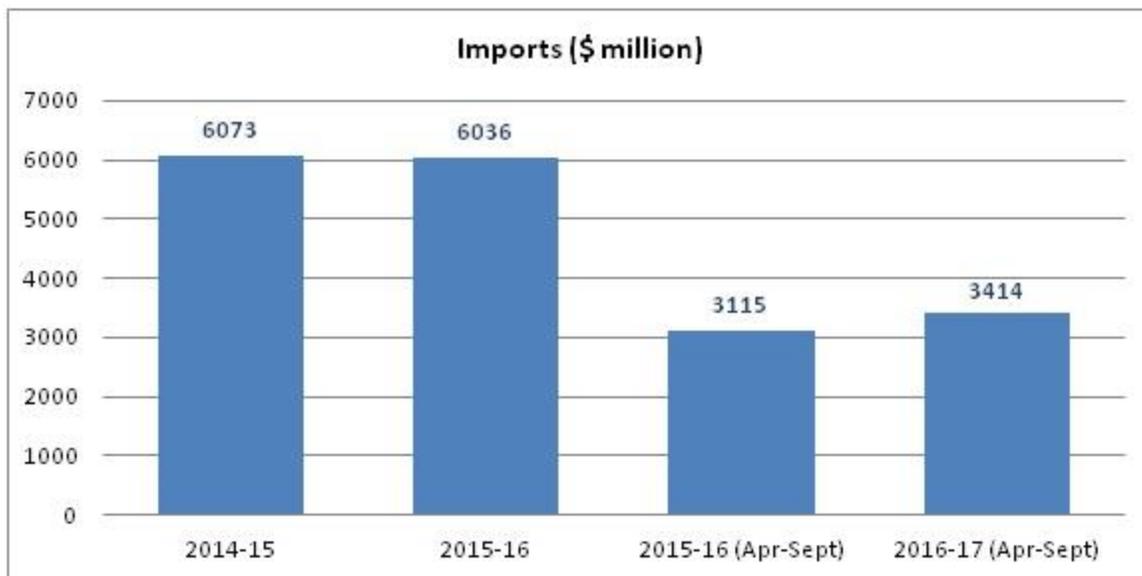
The Indian textile industry is the second largest manufacturer and exporter in the world, second only to China. India's textiles products, including handlooms and handicrafts, are exported to more than hundred countries. However, the USA and the EU, account for nearly half of India's textiles and apparel exports. Other major export destinations include UAE, China, Bangladesh, Sri Lanka, Saudi Arabia, Republic of Korea, Turkey, Pakistan, Brazil, Hong-Kong, Canada and Egypt. The share of textile and apparel in India's total exports stands at a significant 15%. India has a share of 5% of the global trade in textiles and apparel. It employs 4.5 crore people directly and another 6 crore people in allied sectors, including a large number of women and rural population.

Exports of Textiles and Apparel products including Handicrafts from India decreased to \$40 billion during 2015-16 from \$40.7 billion during 2014-15. However, its share in overall export basket of India increased from 13.6% in 2014-15 to 15% in 2015-16. In Rupee terms, the same was valued at Rs 2,58,041 crore and Rs 2,59,712 crore during 2014-15 and 2015-16 respectively. During 2014-15, Readymade Garments (RMG) accounted for almost 40% of the total textiles exports; while in 2015-16, the export of RMG increased to 42% of total textiles exports. The total textile and apparel exports during 2016-17 (April-Sept) period is valued at \$18.7 billion with a share of 14% in India's total export of \$132 billion during the same period.



**Imports**

India is a major textile and apparel exporting country and exports are far in excess of imports. Majority of import takes place for re-export or for special requirements. The import of textiles and apparel products in India increased marginally from \$3.1 billion during April-Sept 2015-16 to \$3.4 billion during same time period of 2016-17. Import of textiles & apparel products in India marginally reduced from \$6.1 billion during 2014-15 to \$6 billion during 2015-16.



**Sector-wise production of clothes**

**Power loom sector**

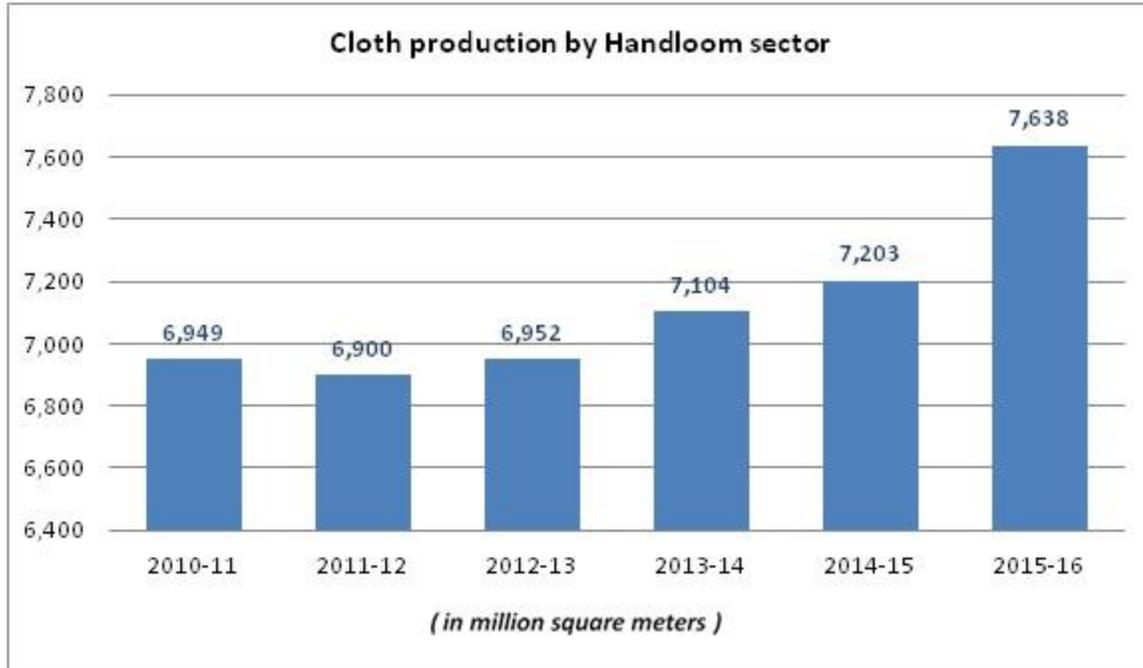
The decentralized power loom sector is one of the most important segments of the Textile Industry in terms of fabric production and employment generation. It provides employment to

64.36 lakh persons and contributes 60% of total cloth production in the country. 60% of the fabrics produced in the power loom sector are man-made. More than 60% of fabric meant for export is also sourced from power loom sector. The readymade garments and home textile sectors are heavily dependent on the power loom sector to meet their fabric requirement. There are approximately 25.74 lakh power looms as on October 31, 2016. There were 19,90,308 power looms till 2006-07, which grew to 25,22,477 power looms at the end of 2015-16 year. The total number of power looms installed till 2016-17 (up to October, 2016) stood at 25,74,522.



**Handloom sector**

Handloom weaving is one of the largest economic activities after agriculture providing direct and indirect employment to more than 43 lakh weavers and allied workers. This sector contributes nearby 15% of the cloth production in the country and also contributes to the export earning of the country. 95% of the world's hand woven fabric comes from India. The handloom fabric production has been very impressive and growth has been at the rate of 6% to 7% in the beginning of the 11th Plan.



**Mill sector**

The weaving activity is mainly undertaken in the unorganized sector i.e. handlooms and powerlooms and the share of mill sector in weaving segment is very small. The mill sector is competitive only in a few products, which are produced on large scale or require large width.



**Hosiery sector**

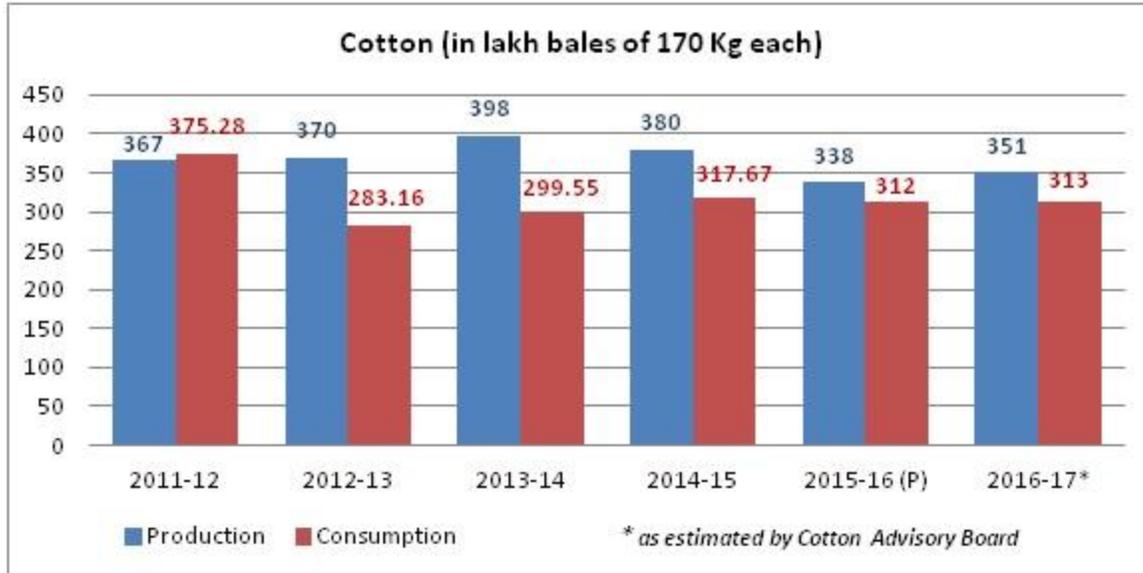
Hosiery is now used in wider sense and covers all knitted fabric such as, T-shirts, undergarments, knitted trousers, socks, stockings, etc. The thickness knitted of fabrics produced and weight is defined in terms of denier or opacity. As for hosiery (knitted varieties), an increasing trend is observed for both cotton and total textiles.



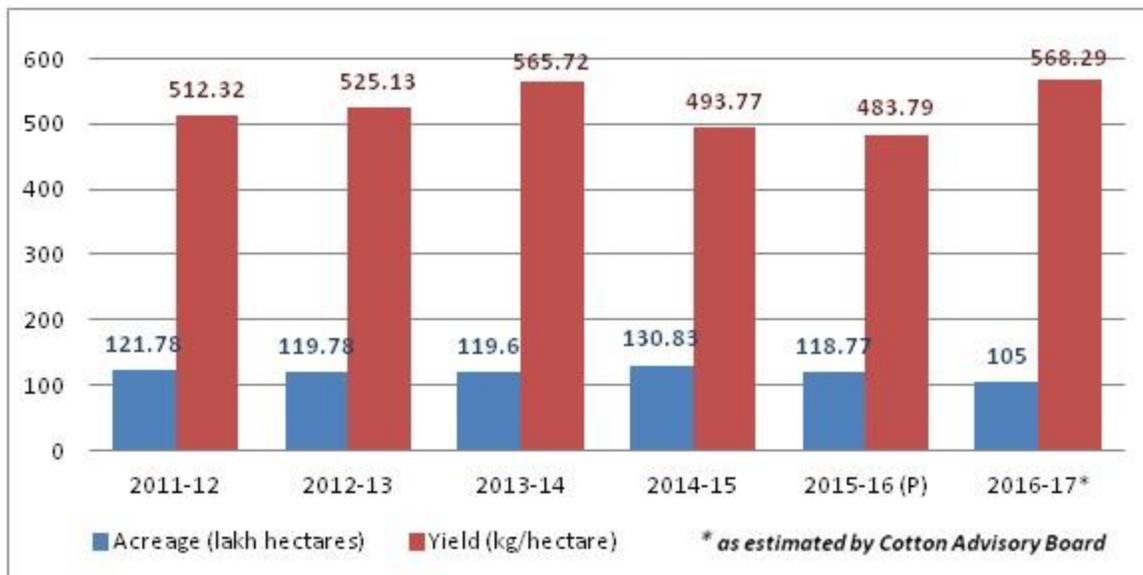
### Categories of textile industry

#### Cotton

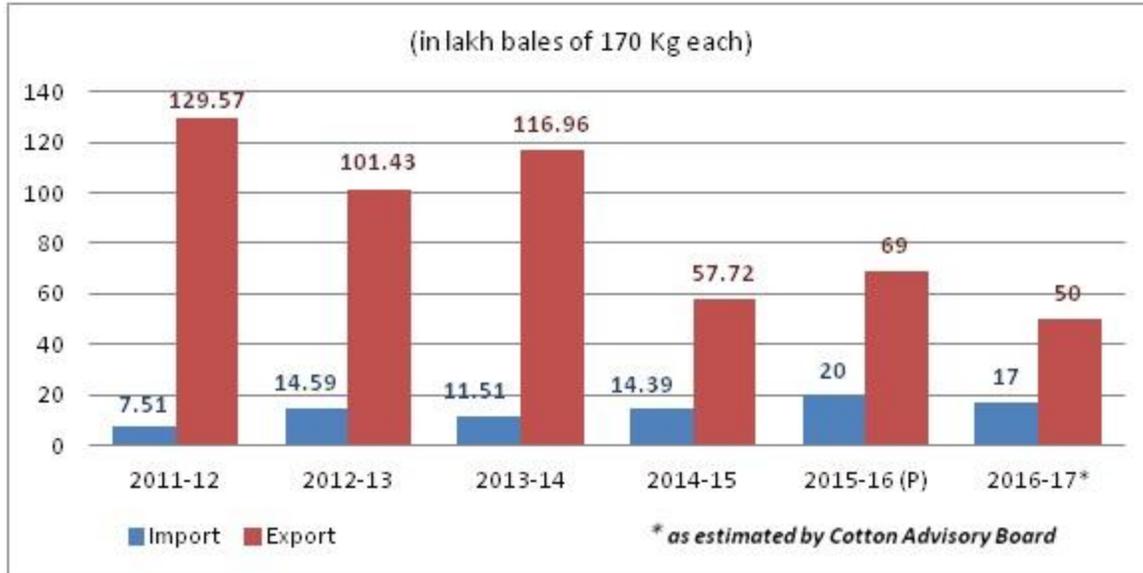
Cotton is one of the principal crops of the country and is the major raw material for domestic textile industry. It provides sustenance to millions of farmers as also the workers involved in cotton industry, right from processing to trading of cotton. In the raw material consumption of the textile industry in India, the ratio of the use of the cotton to man-made fibres and filament yarn is 59:41. Production and productivity of cotton in India have improved significantly during the past decades. India is the largest producer and second largest exporter of cotton in the world. India is also leading consumer of the crop. Cotton is cultivated in three diverse agro-ecological zones, Northern zone comprising the States of Punjab, Haryana and Rajasthan, Central zone comprising the States of Madhya Pradesh, Gujarat, Maharashtra & Orissa and Southern zone comprising the States of Telangana, Andhra Pradesh, Karnataka and Tamil Nadu. Cotton is also cultivated in small areas of non-traditional states such as Uttar Pradesh, West Bengal and Tripura.



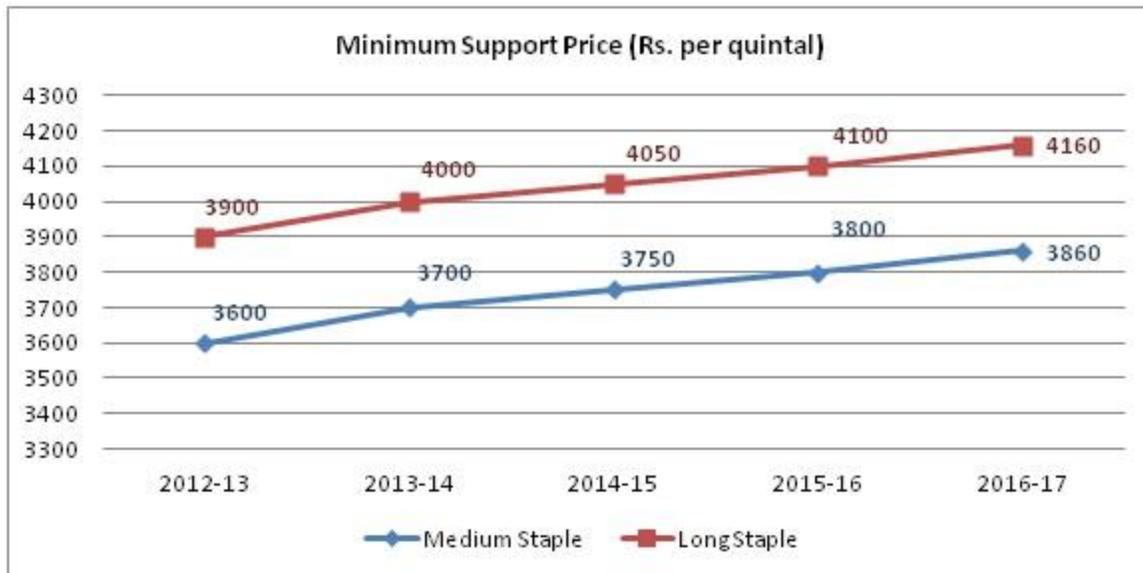
India was placed number one in world in cotton acreage with around 118.77 lakh hectares under cotton cultivation i.e. around 39% of the world area of 304 lakh hectares. Approximately 62% of India's Cotton is produced on rain-fed areas and 38% on irrigated lands. In terms of productivity, India ranks poorly compared to USA & China. During 2016-17, India's Productivity is estimated at 568.29 Kg/ha.



India exports cotton mainly to Bangladesh, China, Vietnam, Pakistan, Indonesia, Taiwan, Thailand etc. Even though China was the largest importer of Indian cotton fibre till 2013-14, it became the second largest importer of Indian Cotton fibre in 2014-15, with Bangladesh becoming the largest importer of Indian cotton. India is a major producer and exporter of cotton fibre, but a small quantity of long fibre variety of cotton which is not available in the country, is imported.



Every year before commencement of the Cotton Season (October to September), the Government of India, Ministry of Agriculture based on the recommendations of Commission for Agricultural Costs and Prices (CACP) fixes the Minimum Support Price (MSP) for two basic staple groups of cotton i.e. medium long staple variety (staple length 24.5 mm to 25.5 mm and micronaire 4.3 to 5.1) and long staple cotton (staple length 29.5 mm to 30.5 mm and micronaire value 3.5 to 4.3) with a view to give incentives to the Cotton farmers of the country. For cotton season 2016-17, Ministry of Agriculture has fixed MSPs of Rs 3,860 per quintal for medium staple and Rs 4,160 per quintal for long staple.

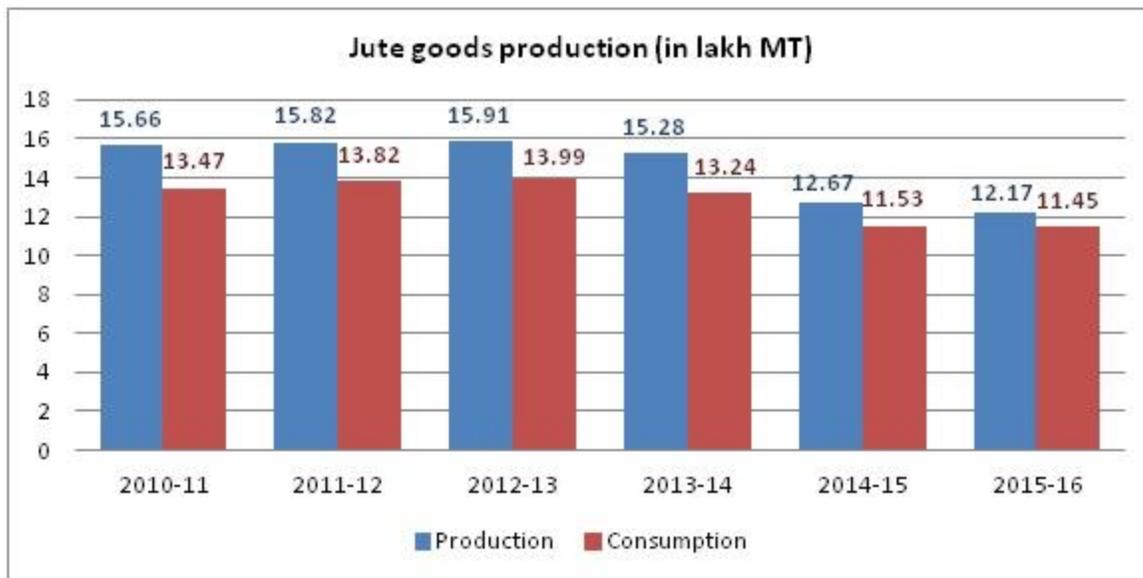


### Jute and Jute Textiles

The Jute industry occupies an important place in the national economy of India. It is one of the major industries in the eastern region, particularly in West Bengal. It is estimated that the jute industry provides direct employment to 0.37 million workers in organized mills and in

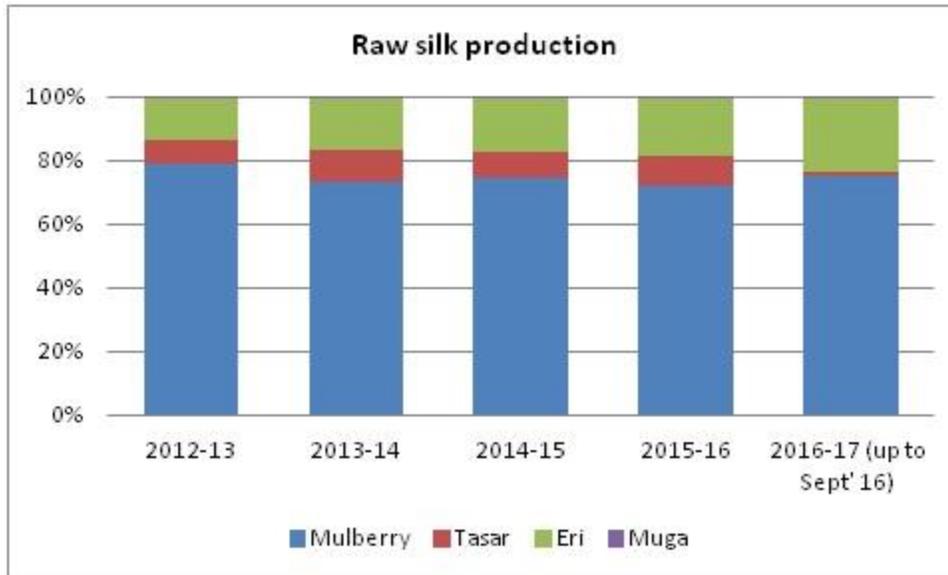
diversified units including tertiary sector and allied activities and supports the livelihood of around 4 million farm families. In addition there are a large number of persons engaged in the trade of jute. Raw jute crop is an important cash crop to the farmers.

India is the leading jute goods producing country in the world, accounting for about 60% of estimated world production. It is the major producer of jute products in the world primarily due to its vast domestic market and mandatory use through a law. Bulk of the manufactured jute goods is predominantly used for packaging purposes in domestic market. Average domestic consumption out of total production has been around 90%.



### Silk and Sericulture

India with the production of 28,523 MTs of silk is the second largest producer of silk in the world after China. Among the four varieties of silk produced, Mulberry accounts for 71.8% (20,478 MT), Tasar 9.9 % (2,819 MT), Eri 17.7% (5,060 MT) and Muga 0.6% (166 MT) of the total raw silk production of 28,523 MT in 2015-16. The silk production has increased during 2015-16 in spite of drought, un-seasonal rain, cyclone etc. The import substitute Bivoltine silk production has increased from 3,870 MTs to 4,613 MTs registering an increase of 19.2%. Vanya silk production has increased from 7318 MTs to 8045 MTs showing an increase of 9.9%. Eri and Muga silks have recorded the highest ever production of 5060 MT and 166 MT respectively.



### Wool & Woolen Textiles

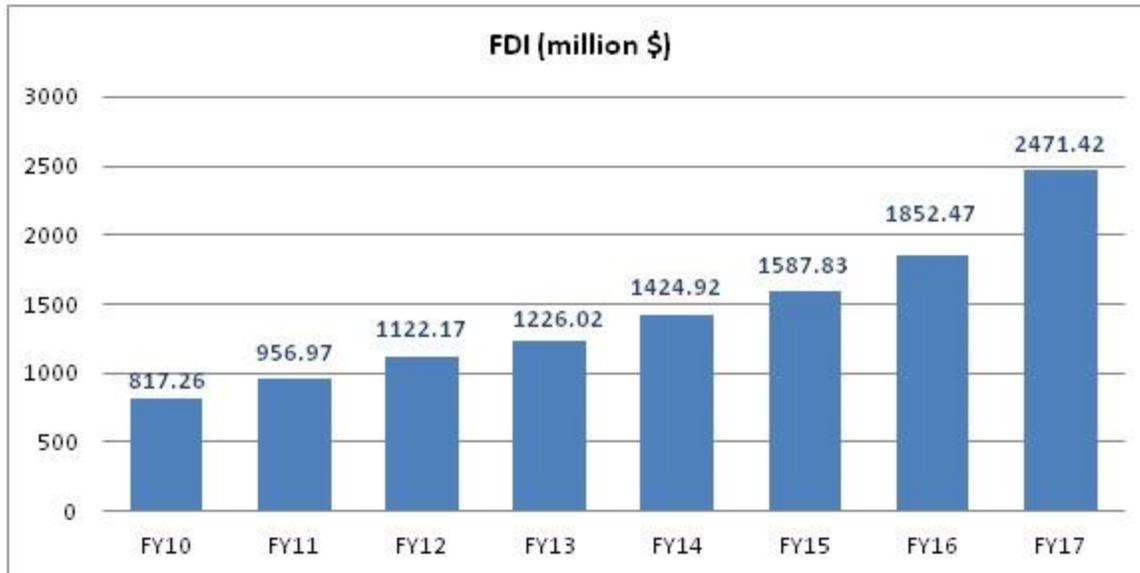
The export of wool and wool blended products has shown a decline of 14.46% in Rupee terms during April'16 to August'16 (2016-17) as compared with the same period of corresponding year 2015-16. The export of RMG Wool during April'16 to August'16 (2016-17) period stood at Rs 699.15 crore compared to Rs 857.40 crore during the same period of 2015-16, while export of Woollen Yarn, Fabrics, Made-Ups stood at 483.42 crore. The domestic industry is highly dependent upon imports of apparel grade wool. This makes the domestic industry dependent on imports. India is importing raw wool from many countries. The top ten markets are Australia, New Zealand, South Africa, Uruguay, Argentina, Pakistan, USA, UK, Russia, China etc. The import of RMG Wool during April'16 to August'16 (2016-17) period stood at Rs 30.35 crore compared to Rs 35.65 crore during the same period of 2015-16, while import of Woollen Yarn, Fabrics, Made-Ups stood at 110.57 crore and import of raw wool stood at Rs 797.95 crore.

### Man-Made Fibres

The production of Man Made fibre showed a rising trend with 1,037 million kg recorded during 2016-17 compared to 999 million kg production recorded during 2015-16. The production of Man Made fibre during Q1FY17, Q2FY17 and Q3FY17 stood at 341 million kg, 356 million kg and 340 million kg respectively. However, the Man Made filament yarn production slipped to 862 million kg during 2016-17 compared to 873 million kg reported during 2015-16. The production of Man Made filament yarn during Q1FY17, Q2FY17 and Q3FY17 stood at 279 million kg, 295 million kg and 288 million kg respectively.

### Foreign Direct Investment (FDI)

The government has allowed 100% FDI in this sector. The textiles industry in India is experiencing a significant increase in collaboration between global majors & domestic companies. FDI in textiles (including dyed, printed) grew at a CAGR of 17.13% during the period from FY10 to FY17. The industry has experienced noticeable growth in FY17, as FDI in the sector increased to \$2471.42 million in FY17 from \$1852.47 million in FY16.



### Impact of GST

The recently introduced Goods & Services Tax (GST) will likely be addressing all major concerns of industry. GST would help reduce costs for manufacturers in the textile industry as it is likely to consider various fringe taxes like Octroi, entry tax, luxury tax etc. Due to the extensive procedure costs and delays made in the processing of duty drawback, the manufacturers/traders were not inclined towards exports. Under GST, the system of duty drawback will lose its significance, which would give a significant boost for promoting the export of textile products. The positive impact of GST will be largely felt by companies engaged in manufacturing and/or dealing with fibre and yarn components, since the presence of unorganized units is relatively large compared to the fabric and garment units. However, the GST would affect the cotton value chain of the textile industry including all garments for men and women like shirts, trousers, saree, apparels, shoes and any more clothing materials which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route). This near-term disruptions could take a potential toll on the financial performance of most players, the textile industry as a whole is poised to grow as organized units gain market share back from their unorganized counterparts.

### Recent developments

65 MoUs in the textiles sector were signed at mega textiles trade fair, Textiles India 2017, being held in Gujarat. MoUs were signed between various domestic and international organizations from industry and government; three of the MoUs signed are G2G MoUs. The MoUs signed relate to exchange of information and documentation, Research & Development, commercialization of handloom products and silk production, cooperation in Geo textiles, skill development, supply of cotton and trade promotion with overseas partners, etc. Separately, MoUs worth Rs 8,835 crore in textile sector were signed during Vibrant Gujarat 2017. MoUs have been signed in different sectors such as textile parks, textile processing, machinery, carpet development, etc.

The textile ministry has signed memorandum of understanding (MoU) with 20 e-commerce companies to engage with artisans and weavers in different handloom and handicraft clusters across India and help them market their products directly. This step has been taken with a view of looking to concentrate on new markets and opportunities for local handloom and handicraft sector as many global companies are willing to tie-up with Indian weavers and artisans.

Government has started Geographical Indications (GI) tagging of handicraft and handlooms for the benefit of weavers and artisans. A total of 149 crafts have been registered under Geographical Indication Act. Marketing & Service Extension Centres provide support to artisans and weavers for registration of their crafts under GI.

### **Government initiative**

Government has announced a special package of reforms for generation of around 1.11 crore jobs in apparel and made-ups sectors, and for a cumulative increase of \$32.8 billion in exports and investment of Rs 80,630 crore over next 3 years. The package includes a slew of measures which are labour-friendly and would promote employment generation, economies of scale and boost exports.

The Government is providing additional production-linked incentive of 10% under the Amended Technology Up-gradation Scheme (ATUFS), for promoting employment in garmenting segment. Furthermore, the Government has designed Pradhan Mantri Paridhan Rojgar Protsahan Yojana (PMPRPY) to incentivize employers in the apparel sector for generation of new employment. Under the PMPRPY, government provides additional 3.67% of the employer's contribution, in addition to Government bearing 8.33% of employer contribution of Provident Fund (EPF).

The government has extended duty drawback facility for one year on all textile products to boost exports, and has increased rates in some cases for the benefit of Indian exporters. Under the revised norms, home textiles attract drawback of 7.5% now as against 7.3% earlier. Similarly, incorporation of blanket and other cotton products in this category will attract drawback rate of 8% now from 7.2% earlier. In a notification dated November 1, the Central Board of Excise and Customs (CBEC) extended the duty drawback benefit for textile exporters to overcome the barriers they face in exports.

In order to strengthen and modernize the powerloom sector, Government has launched PowerTex India, a Comprehensive Scheme for Powerloom Sector Development. Under the scheme there are several interventions. The state governments have been requested to provide additional benefits to powerloom units in their states in addition to the subsidy /benefits given by Government of India.

### **Conclusion**

India's textile sector dates back to several centuries and is even today one of the largest contributors to the country's export with approximately 15% of total exports. The industry is labour intensive and is one of the largest employers. India enjoys a comparative advantage in terms of skilled manpower and in cost of production, relative to major textile producers on account of abundant availability of raw materials such as cotton, wool, silk and jute. The capacity built over years has led to low cost of production per unit in India's textile industry. This

has also provided a strong competitive advantage to the country's textile exporters relative to key global peers. The country's growing population and favorable demographics has been a key driver of textile consumption growth. Rising incomes has also been a key determinant of domestic demand for the sector. The implementation of GST has brought business to a standstill as unregistered suppliers and customers try to stay out of the ambit of the new tax regime, however, the positive impact of GST will be largely felt by companies engaged in manufacturing and/or dealing with fibre and yarn components. The retail segment has also experienced a rapid growth in the past decade with the entry of several international players which will further drive the growth of the industry.

### Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YIELD %	TTM EPS	TTM PE
Tata Sponge Iron Ltd.	581.43	1270.65	825.10	1.33	51.15	16.13
Tata Metaliks Ltd.	94.04	1617.42	639.60	0.39	40.25	15.89
Technocraft Industries (India) Ltd.	242.14	1189.68	452.35	0.66	37.00	12.22
Kalyani Steels Ltd.	170.76	1952.82	447.35	1.12	35.72	12.52
Tata Steel Ltd.	472.65	55893.45	575.50	1.74	35.47	16.23
Sarda Energy & Minerals Ltd.	348.73	1040.20	288.70	1.39	28.61	10.09
Maharashtra Seamless Ltd.	419.83	2701.09	403.15	1.24	21.72	18.56
Mangal Steel Enterprises Ltd.	777.98				19.77	
Beekay Steel Industries Ltd.	119.44	280.36	147.00	0.68	18.60	7.90
Rajratan Global Wire Ltd.	227.31	265.05	609.05	0.25	18.50	32.93
APL Apollo Tubes Ltd.	166.77	3719.90	1576.90	0.76	16.67	94.58
Gallantt Ispat Ltd.	139.67	616.25	218.25	0.23	15.67	13.93

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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