

### India's Textile & Fashion Industry: The Next Decade

If Indian textile and clothing industry's performance in the last decade has to be described in a single phrase, it could be "unfulfilled promise".

At the beginning of the last decade, there were several reasons to be extremely optimistic about the prospects of this vast and critically important industry. After nearly two decades of pernicious licensing and fiscal policy distortions, the Government was poised to liberalize the highly fragmented textile sector and give the mill sector in particular a level playing field. The highly restrictive Multi Fibre Agreement was scheduled to be phased out by the end of 2004, and with that, all quantitative quotas on export of textile and clothing products were to be abolished. Indian economy was shifting to a higher growth trajectory, and in fact, the last decade did deliver a GDP CAGR of more than 6% creating tens of millions of new consumers who had some discretionary purchasing power for the first time ever, and then enhancing the discretionary spending abilities of tens of millions of others. Demographically, India entered the last decade with an extremely attractive age and lifestyle distribution with almost 40% of Indians (or almost 400 million in absolute numbers) in the 15-35 age group.

Unfortunately, for various reasons, the Indian textile and apparel industry could not capitalize on the more liberal global trade regime (China just raced ahead, and then even Bangladesh, Sri Lanka, Pakistan, and Vietnam became significant competitors to India even without having any significant upstream textile industry strengths barring some that Pakistan had). Even domestically, while the market has grown significantly, there are yet no single Rs 1000 Crores revenue apparel brands in India and just 2 integrated textile groups having revenues in excess of US\$ 1 Billion (Rs 5500 Crores or more). Worse, the financial health of the mill sector in India seems to be worse than it was a decade ago, with about Rs 35,000 Crores worth of debt already under restructuring and a fear that another Rs 50,000 – 60,000 Crores worth of debt under severe stress and likely to require some restructuring.

Is it, therefore, time to write the epitaph for India's oldest and still the largest manufacturing sector and conduct various post mortems into the causes of "what could have been versus what the situation is today"? Fortunately, the answer is a very confident "no" and one that is not based out of subjective, emotional optimism but on fairly visible trends and hard facts. Indeed, if the industry gets its act together, and if the government does not (yet again) play the spoilsport with arbitrary changes in its upstream (fibre and yarn) trade and fiscal policies, the coming decade can well be the most memorable year for India's textile and apparel industry with every part of the value chain (from fibre to the retail) generating strong, steady, and profitable growth.

There are many national and international trends that can individually and collectively provide a very strong tailwind to the Indian textile and apparel industry. The steady erosion in Chinese textile industry's competitive advantage vis-à-vis India is perhaps the most promising one. With China poised to touch the ranks of a nearly developed country (and in particular, across most of its well industrialized regions in the eastern and mid-eastern periphery), Chinese textile industry is now faced with a strengthening currency, rapidly rising wages, higher environmental and other compliance costs, and a steady rise in domestic demand as its 1.3 billion inhabitants become more voracious consumers. In India's neighbourhood, there is little potential of further growth in Sri Lanka while Pakistan continues to be beset with its own problems and challenges. Bangladesh is a formidable competitor but if one were to compare with the net value added in Bangladesh vis-à-vis India when it comes to apparel exports, India continues to maintain a clear advantage. Qualitatively, Indian textile industry has made very rapid strides in the last decade and if it were to now start focussing on diversifying its fabric base to more man-made fibre based fabrics and into high performance, non standard- clothing application fabrics, there is no reason why India cannot take a much larger share of the global textile and apparel (including fashion apparel) business.

Notwithstanding the headwinds that the Indian economy faces today, it would be reasonable to expect the economy to achieve at least a 6% CAGR in the next decade too even as many countries face slow growth or even a near stagnation. As a result, even with the current spate of negative global press coverage on India, the interest of international companies (including retailers and fashion brands) is likely to sustain. The Government will certainly open the domestic market to foreign direct investment from retailers (single and multibrand) in the near future, and with that, India would see substantially more investment from fashion brands and retailers in the coming years. This will not only stimulate India's domestic demand (and more about it later in this article) but also an enhanced indirect investment in money and effort from the retailers and brands in developing India based supply chain. This has the potential of making Indian textile and clothing industry even more competitive, and also to diversify the product mix further thereby creating new or enhanced opportunities to export more out of

India through the local sourcing and buying offices of such retailers and brands who directly invest in India post the easing of FDI regulations. Hence, while India's Textile and Clothing exports increased from about US\$ 11 Billion in 2001 to US\$ 31 Billion in 2011, they are likely to cross US\$ 82 billion by 2021 giving India about 8% share in the textile and clothing global trade estimated to touch about US\$ 1000 billion by then.

The picture is rosier when it comes to the trends in India's domestic textile and apparel market, though some of the brands and apparel retailers may choose to differ and be more pessimistic at this time with a slowdown in the economy and consumers becoming more careful and more price sensitive. However, the players in the domestic market have to take a somewhat longer view. The pricing pressures will continue in the coming years but there is a very steady rise in demand across all product categories and this trend will continue. The most promising areas include womenswear (especially western style clothing and intimate apparel), denim fabric based clothing (jeans, skirts, and shirts), and children's wear. Equally interestingly, the demand growth is very evenly spread across the length and breadth of India, and is strong both in urban as well as rural centres. Such is the strength of the underlying current of domestic demand growth that by the end of the next decade, the domestic market for textiles and clothing should easily cross US\$ 140 Billion in size, up from the current US\$ 58 Billion, and 7 times more than the US\$ 20 Billion it was in 2001.

Again, if there is any single trend that will have the most transformational impact on the global and Indian textile and clothing industry, it is "e-commerce". Not many know yet or would believe that globally, clothing is now the #1 category sold online by value. There are many exciting technologies making their way into e-commerce platforms that will not only mimic but even improve upon the brick & mortar retail shopping for clothing. Haptics is one such technology promising to deliver "touch and feel" experience to the consumers on their digital devices such as phones and tablets and is expected to become mainstream within the next 3-5 years, if not earlier. Sophisticated on-line "size measurement" applications, virtual trial rooms, ability to get peer-group referrals on the virtually-tried garments, and highly advanced analytics will enable brands and on-line clothing retailers to make a "one-to-one" connect with individual consumers, and "curate" a collection of styles and colours very specifically for each customer so as to make her / his decision taking far easier compared to what the most successful brick & mortar retailer can offer today.

Indeed, by the end of next decade, some of the most iconic global and Indian brick & mortar retailers could well become history or at best, remain a pale shadow of what they are today. In their place, hundreds and thousands of new e-tailers and new, thriving fashion brands could come into existence.

The impact of such a development will be felt by textile and clothing exporters who may have to deal with a completely new set of customers who will have very different supply-chain needs and very different buying characteristics and practices. It would also be felt very strongly by the domestic market oriented players who will be able to overcome the myriad challenges of making India's highly fragmented retail channel more organized by just bypassing the physical retail channel, and instead, digitally reach out to hundreds of millions of Indian consumers directly with little or no challenge of retail real estate and its rising cost of occupation, rising salaries and challenges of training and retaining the retail front end staff, rising cost of establishing and maintaining retail outlets, shrinkage, increasing obsolescence and excess stock mark-down costs, costs of maintaining inventory at hundreds and thousands of physical store locations etc. etc.

With such transformational changes in the offing for the entire textile and clothing industry encompassing the entire value chain, and touching just about every aspect of business including production, distribution, branding, and retail, the next decade promises to be a truly exciting one. It also promises to offer myriad new opportunities for current players and would-be entrepreneurs while causing severe existence-threatening disruptions to those who choose not to accept and adapt to these changes.

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