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A Relook at India's Textile Industry

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.

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 domestically, while companies in many other sectors became billion dollar giants, currently there are only 3 textile businesses having revenues in excess of US\$ 1 Billion. 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.

Is it, therefore, time to write the epitaph for India's oldest and still the largest manufacturing sector? Fortunately, the answer is a very confident "no". 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 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, 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.

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. India would see substantially more investment from global fashion brands and retailers in the coming years. This will not only stimulate India's domestic demand 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, India's Textile and Clothing exports are likely to cross US\$ 82 billion by 2021 from about US\$ 31 Billion in 2011.

The picture is rosier when it comes to the trends in India's domestic textile and apparel market. 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 estimates of about US\$ 58 Billion.

What the industry needs is a renewed belief and confidence in the medium and long term prospects of this exciting sector, followed up with right sizing through pragmatic divestments and acquisitions, determined deleveraging through sale of both non-core and select core assets, enhanced deployment of technology for managing business operations, and innovative branding and marketing taking a leaf or two from other consumer product businesses.

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