

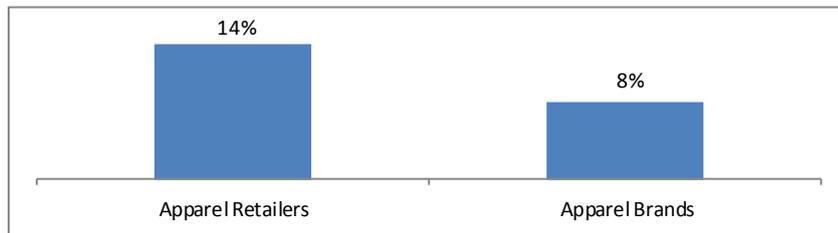
Round-Up of 2012 and expectations from 2013

Key Market Developments in 2012

Domestic market grows slowly

2012 has been a slightly turbulent year for the domestic textile and apparel market. While there was significant demand in the initial part of the year, demand slowed down in the latter half. Domestic sales for key apparel brands have, on average, grown by 9% in value terms during the first half of 2012. Year-over-year sales growth was higher in the first quarter (15%), while in the second quarter growth slowed down to 4%. One of the primary drivers of value growth in the first quarter was the 10-15% increase in prices implemented by many retailers in the latter half of 2011. However, demand shrank in the 2nd quarter due to weak consumer sentiments on the back of the global economic slowdown. Sales growth has been higher in large format multi-brand outlets compared to exclusive brand outlets, suggesting that consumers are giving more importance to product variety than brands.

**Average Sales Growth of Key Listed Apparel Brands and Retailers
(Half yearly sales growth - YTD June 2012 vs. YTD June 2011)**



Source: Company Reports, Technopak Analysis

In terms of profitability, operating margins have reduced by an average of 7% compared to last year for the key listed apparel brands and retailers. One of the main reasons for this is the surge in raw material prices in 2012 compared to 2011. Also, many retailers opted for early end-of-season sales this year due to reduced sales of summer stock – itself a result of an extended winter. This, along with promotional tactics of brands, has dented bottom lines in the second quarter. With rising raw material prices, the pressure on margins is further expected to increase.

In terms of categories, women's western wear has continued to increase in sales, with many brands increasing their focus on women's wear. Formal / Semi-Formalwear and innerwear categories have also grown while there has been slower growth in casual wear. Non-denims have scored over denims this year especially in women's segment. Also, an extended winter in the North meant higher sales for winterwear and lower growth for casualwear.

International brands expanding in India

International brands continue to be attracted by India especially in the super premium / luxury segment. Many brands have entered India through partnerships with Indian franchisees or retailers. With relaxation in FDI norms, more international brands and retailers are expected to enter India.

Several Indian companies have also increased their focus on the domestic market and have expanded their presence, primarily through partnerships with foreign labels.

Growth of Online apparel retail

With the increasing maturity of e-commerce in India, online apparel retailing is also being accepted by consumers. Many companies have upped their presence and focus on online channels. Online retail has especially grown in smaller cities and towns, where larger brands are not yet available through physical stores. Many online apparel stores have come up with exclusive focus on Tier II and Tier III cities, while the more established online retailers have also scaled up aggressively and have grown significantly. With brick-and-mortar retailers branching into online retail, and with many international online apparel retailers foraying into India, this space will be interesting to watch in future.

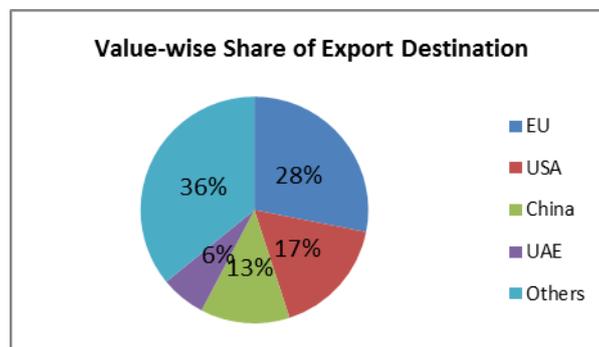
Apart from services, the online platform is fast catching up in other product categories, including the touch-and-feel experience categories such as 'apparel'. Platforms such as Myntra.com, Fashion&You.com, Zovi.com, etc. offer a lot of ease and convenience to customers in terms of variety of apparel, display, choice, discounts and ease of delivery. Retailers and brands such as Pantaloons, Shoppers Stop, FabIndia, Madame, etc. also operate a very active online sales channel and have seen a tremendous increase in the number of orders placed online. Customers can browse through more variety and can easily compare price and quality of merchandise online.

Exports market impacted by demand uncertainty and currency fluctuations

For the fiscal year 2011-12, the textile and apparel exports of India stood at USD 34.3 billion and accounted for around 11% of the total export sales of India. The same year witnessed an overall annual growth of around 19% compared to 24% growth in the previous fiscal year. India's textiles exports contributed USD 20.6 billion with a growth of 20% in FY 2011-12, while apparel exports totaled USD 13.7 billion with a growth of 18% in that year.

The increasing demand for non-cotton fibers from major importing nations was a noticeable trend in FY 2011-12. Exports of cotton clothing grew at a moderate rate of 12% whereas the figures for man-made fibers and non-cotton vegetable fibers were 47% and 31% respectively during the same duration.

The EU was the largest exports market for Indian textiles and apparel, followed by the US, China, and UAE. However, the export share of EU and US has been reducing over the years. In 2008-09, the combined share of the US and the EU was more than 57%; this fell to 45% in FY 2011-12. Weak market confidence and dampened consumer spending has reduced the textile and apparel exports to the US and the EU. On a positive note, the share of exports to China surged from 5.7% in 2009-10 to 12.7% in FY 2011-12. Bangladesh, Turkey, Brazil, Saudi Arabia, Sri Lanka, Hong Kong and South Korea are other important exports markets for India.



Source: UN Comtrade, Ministry of Commerce India

For the first six months (Apr-Sep) of the fiscal year 2012-13, cumulative apparel exports have decreased by 10.2% over the exports of USD 6.9 billion in the prior-year period. But, due to the rupee's depreciation, the value of exports has increased by 8.5% in the same period. If the demand in the exports market continues to remain low, it will be difficult to achieve the targeted exports of USD 40 billion set by the Ministry of Textiles for FY 2012-13.

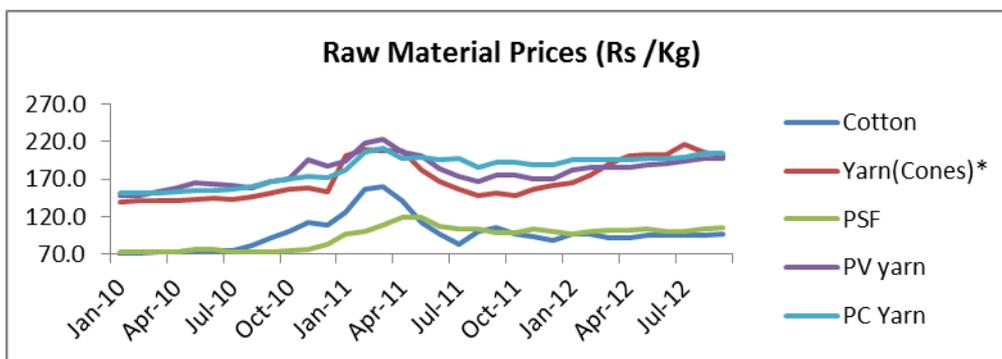
Manufacturing sector growing slowly

Textile and apparel manufacturing lost momentum after FY 2010-11, despite a growth in FY 2011-12. In FY 2011-12, yarn production volumes increased by 7.5% but fabric production dipped by a moderate 0.7%. While domestic market growth has contributed positively to the manufacturing sector, the fluctuation in raw material prices and slowing demand from export markets had a negative impact on manufacturing.

However, most textile companies have shown positive revenue and profit growth in 2012. The average sales growth of the top listed textile companies was 17% compared to last year, in the first half of 2012. Sales growth was higher in the second quarter compared to the first quarter. This can be attributed to higher price realization and higher domestic market sales.

Raw material price fluctuations reduce

Raw material prices were relatively more stable in 2012 compared to the previous year. Prices increased slightly in 2012 after a dip in mid-2011. With stocks of cotton increasing globally and lower end product demand, prices are not expected to increase significantly in the near future.



Source: Ministry of Textiles

Several policies announced

This year many policy initiatives were taken by the Government which will have significant impact on the textile and apparel industry in the near future. On the retail front, the decision to allow 100% FDI in single-brand retail and 51% in multi-brand retail will have a significant impact on foreign investment in retail. Already, several brands are reviewing their ownership structure with many opting for a joint venture with an Indian partner. There were also policy initiatives taken for the textile manufacturing sector at the States level. The Maharashtra government announced their textile policy for 2012-17, involving an additional interest subsidy of 10% for new investments in specific locations, for projects approved under the Technology Upgradation Fund Scheme (TUFS). The policy expects to attract investments worth INR 40,000 crores. The Gujarat government also followed up with their textile policy (Navi Gujarat Vastra Niti 2012-17) providing subsidies and financial assistance for new investments. Other states like Karnataka, Punjab and Tamil Nadu have also introduced various attractive policies supporting the textile sector in their respective states.

Further to the above schemes, extensions of running schemes like TUFS, Scheme for Integrated Textile Parks (SITP), Technology Mission on Technical Textiles (TMTT), etc. will be beneficial for the industry as a whole and provide incentives for new investments in future.

Expectations for 2013

The domestic market is expected to grow further in 2013 with faster growth of modern retail and the increasing market size of Tier I, Tier II and Tier III cities. With international brands looking to enter / expand in India, and Indian companies focusing more on the domestic market, there will be increased options for Indian apparel consumers, further driving consumption.

Various state level schemes will also result in more investment in textile manufacturing, resulting in capacity building. Indian manufacturers are expected to diversify into markets beyond the US and Europe and target new and emerging markets like China, Brazil, South Africa, etc.

The fundamental growth drivers for the Indian market like rising disposable incomes, urbanization, modernization etc. continue to hold and hence augur well for growth in textile and apparel consumption, in 2013.

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