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## INDUSTRY OUTLOOK

# TEXTILE INDUSTRY OF INDIA: OUTLOOK AND CHALLENGES

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### Introduction

The genesis of the textile industry in India can justifiably be traced to the Indus Valley Civilization. The textile industry holds a prominent position in the Indian economy. This industry contributes 4 per cent to the global trade in textiles and apparel, 2 per cent to the national Gross Domestic Product (GDP), more than 12 per cent of the manufacturing sector's GDP, and 7 per cent of industry output in value.

India's textile and apparel exports (including handicrafts) stood at \$ 44.4 billion with an increase of 41 per cent year-on-year (yoy) basis in FY22. Currently, India's textile industry contributes around 12 per cent to the country's total exports which was 10.66 per cent in FY 2022. The market size of the global textile industry is around \$ 869 billion and expected to grow at 3.5 per cent CAGR (compound annual growth rate) to reach \$ 1000 billion by 2025-26. The growth of the Indian textile industry has been fostered by self-sufficiency by a diverse set of factors. Such factors are ample availability of raw material particularly natural fibres, cheap labour and strong entrepreneurial skills, flexibility in servicing smaller and specialized orders, cultural diversity and rich heritage, and natural demand drivers including rising income levels, increasing urbanization and growth of the disposable income.



The textile industry in India is, however, severely constrained by stiff competition from cheaper imports, particularly from China, Bangladesh, and Pakistan; obsolete technology with deleterious impact on production and productivity; a shortage of skilled labor; poor infrastructure hampering transportation of goods and extensive access to textile products; compliance with government regulations; environmental concerns, particularly challenges stemming from water and air pollution and labour laws.

The Indian textile industry is the second largest employment provider after agriculture. It is highly labour intensive, and the industry has significantly emerged as a source of income for the unskilled, semi-skilled, and women labour force in the country. It provides livelihood to more than 45 million people directly and more than 60 million people indirectly through its allied industries.<sup>1</sup>

## Major Segments of the Textile Industry

Indian textile industry is highly diversified and fragmented. The classification of textile industry can be done in two ways:

In terms of production process, the textile industry can broadly be structured as:

**Organised textile industry:** Further, it can be divided into two segments i.e., spinning mills and composite mills.

**Unorganised textile industry:** Under the unorganised classification, the segments like power loom, handloom, hosiery, knitting yarn and fabric processing units are major sub-segments.

Both the segments (organised and unorganised) are complementary to each other. For example, the organised sector is the sole producer of yarn, and it is simultaneously used by both the segments i.e., organised, and unorganised textile industry.

In terms of process and output, there are two key segments of textile industry as follows<sup>2</sup>:

**Process:** Raw material => Ginning => Spinning => Weaving/Knitting => Processing => Garments/Apparel Production.

**Output:** Cotton, jute, silk, wool (raw Materials) => Fibre => Yarn => Fabric => Processing Fabric => Final Garments/Apparel.

As a final product, from the above two broad segments, we get woollen textile, silk textiles, jute textiles, and technical textiles. Textile industry is undergoing a major reorientation towards non clothing applications of textiles, i.e., technical textiles.

## Raw Material Support

The raw materials are abundantly available for the Indian textile sector. In terms of raw materials and skilled manpower, India enjoys comparative advantage in cost of production over other global textile producing counterparts. The production of raw materials such as cotton, wool, silk, and jute in abundant quantity provides an edge to the textile manufacturing industries in India.

**Cotton:** Cotton is one of the most important cash crops of the country and it serves as the major source of raw material support to the domestic textile industry. India has emerged as one of the largest producers, consumers, and exporters of cotton in the world. In terms of raw materials needed to produce textile, cotton contributes 60 per cent alone to the raw material basket. It accounts for 25 per cent of the total global fibre production. Every year, about 300 lakh bales (~170 kg each) of cotton are consumed in India.

India has highest acreage production (production per unit of hectare) of cotton in the world. India has 133 lakh hectares of land on which the cotton crops are produced, which constitutes 41 per cent of the world area of 320.54 lakh hectares under cotton cultivation. Around 62 per cent of the total cotton production in India produced on rain-fed areas while rest 38 per cent production is on irrigated lands. During 2020-21, India's productivity was around 460 kg per hectare.<sup>3</sup>

As per the Central Statistics Office data, India produced 40,66,000 tonnes of yarn in 2021-22 against the low base of 32,60,000 tonnes in 2020-21. Cotton production was hard hit by the Covid-19 pandemic. The devastating impact of the pandemic was discernible in the year 2020-21, when the production contracted (-18.74 per cent) as compared to the previous year. The negative growth continued for two consecutive years, i.e., 2020-21 and 2021-22. This severely impacted the textile industry of the country (see Table 1).

**Table 1: Percentage Change in the Production of Cotton from 2012-13 to 2021-22**

Year	Production (% change)			
	Cotton (CSO)	Yarn	Cotton Yarn (OTC*)	Blended Yarn (OTC)
2012-13	14.6		14.6	4.93
2013-14	9.64		9.65	8.21
2014-15	3.22		3.21	2.68
2015-16	2.05		2.05	5.68
2016-17	-1.84		-2	6.38
2017-18	0.16		0.21	2.97
2018-19	3.5		3.55	1.53
2019-20	-4.7		-5.85	-0.62
2020-21	-18.74		-8.5	-11.35
2021-22	24.72		12.52	16.5

\*OTC = Office of Textile Commissioner

Source: CMIE/ Infomerics Economic Research

However, the 2021-22 figures show a marginal improvement (y-o-y). But the industry still faced the consequences of low demand due to changing dynamics led by Russia-Ukraine war and looming recession in EU and the USA (United States of America).

India imported 'Foreign Cotton of all Staple Lengths' of value \$ 1,287.61 million during April to December 2022-23 with an increase of 222 per cent from \$ 399.05 million during the same period in the last financial year.<sup>4</sup>

The cotton cultivation increased by 5 per cent to 125.02 lakh hectare as against 119.10 lakh hectare during last year.<sup>5</sup> To encourage mechanized harvesting of cotton, improved quality of cotton and to reduce labour cost, brand named 'Kasturi Cotton India'<sup>a</sup> for Indian cotton was launched.

<sup>a</sup> <https://pib.gov.in/PressReleasePage.aspx?PRID=1883932>

**Jute:** The Jute industry 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 (as well as in diversified units including tertiary sector and allied activities) and supports the livelihood of several lakh farm families.

*Improved Cultivation and Advanced Retting Exercise Scheme (JUTE-ICARE)*<sup>6</sup> covers 170 jute growing blocks with 1,89,483 hectares had benefitted 4,20,309 jute farmers. Export performance has improved due to *Market Development & Promotion Scheme (MDPS)* as export performance rose by 38 per cent from the last year with current value at ₹ 3786 crores. The value of exported Jute diversified products was ₹ 1744 crore with increasing trend by 46 per cent from the last year. A total quantity of around 26.87 lakh bales of jute bags worth ₹ 9.80 thousand crore (approx.) was indented.<sup>7</sup> Another similar crop, i.e., Mesta, are also be used in place of jute. In India, the production pattern of Jute and Mesta collectively are provided in the Table 2.

**Table 2: Jute and Mesta Production, Production Area, and Yield (2018-19 to 2020-21)**

	Area (Lakh hectare)			Production (Million Tonnes)			Yield (kg/hectare)		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
<i>Jute and Mesta</i> #	7.05	6.73	6.63	9.82	9.88	9.56	2508	2641	2595

<sup>4</sup>th advance estimates @ Production in million bales of 170 kg each

# Production in million bales 180 Kg. each.

Source: Ministry of Agriculture/ Infomerics Economic Research

**Wool:** Wool is one of the essential fibres for producing winter clothing, floor coverings and industrial usage. Sheep are the main source of wool production. In terms of sheep population, India stands on the third spot in the world whereas in terms of wool production, India is on the ninth place in the world.

In 2020-21, the major wool producing states were – Rajasthan (15.68 million kg), Jammu and Kashmir (7.65 million kg), Telangana (3.37 million kg), Gujarat (2 million kg), Maharashtra (1.55 million kg), Himachal Pradesh (1.48 million kg), Karnataka (1.05 million kg), Uttar Pradesh (0.89 million kg), West Bengal (0.76 million kg) and Haryana (0.69 million kg)<sup>8</sup>. Projects to ‘Animal/Sheep/Fisheries Husbandry Department’ have been approved of revolving fund of ₹ 2 crore for procurement of pashmina wool, distribution of 400 portable tents to Nomads of Leh in order to improve living conditions. Further construction of 300 Predator proof corrals for safety of pashmina goat along with project to procure 50 sheep shearing machines for Uttarakhand.<sup>9</sup>

**Silk:** In 2021, the size of Indian sericulture market was ₹ 376 billion, and it is expected to reach ₹ 1,032.8 billion by 2027 with CAGR of 18.4 per cent.<sup>10</sup> India is currently the world’s second largest producer of raw silk and the largest consumer of raw silk/silk fabrics. The silk market in India is driven by both exports and a strong domestic demand. Mulberry, Vanya, Tasar, Eri, and Muga are the varieties of silk used by the Indian textile industry. In 2022, the total Raw Silk production was 28106 mt., R&D projects numbering 44 were initiated and 23 were concluded with the achievement of training 9777 persons in various activities related to silk sector.<sup>11</sup>

**Production of Raw Silk by Type in India  
(2016-2017 to 2022-2023-upto December 2022)**

*(In Metric Tonnes)*

Year	Total Raw Silk Production	Bivoltine Silk Production	Raw Silk Production in Northeast Region (NER)	Mulberry Silk Production	Vanya Silk Production
2016-2017	30348	5266	6151	21273	9075
2017-2018	31906	5874	7166	22066	9840
2018-2019	35468	6987	7680	25345	10123
2019-2020	31217	6208	7107	22422	8795
2020-2021	33739	6772	7425	23860	9878
2021-2022	34903	7941	7936	25818	9085
2022-2023-upto December 2022	27744	6362	6854	20118	7626

**Source:** Ministry of Textiles, Govt. of India.

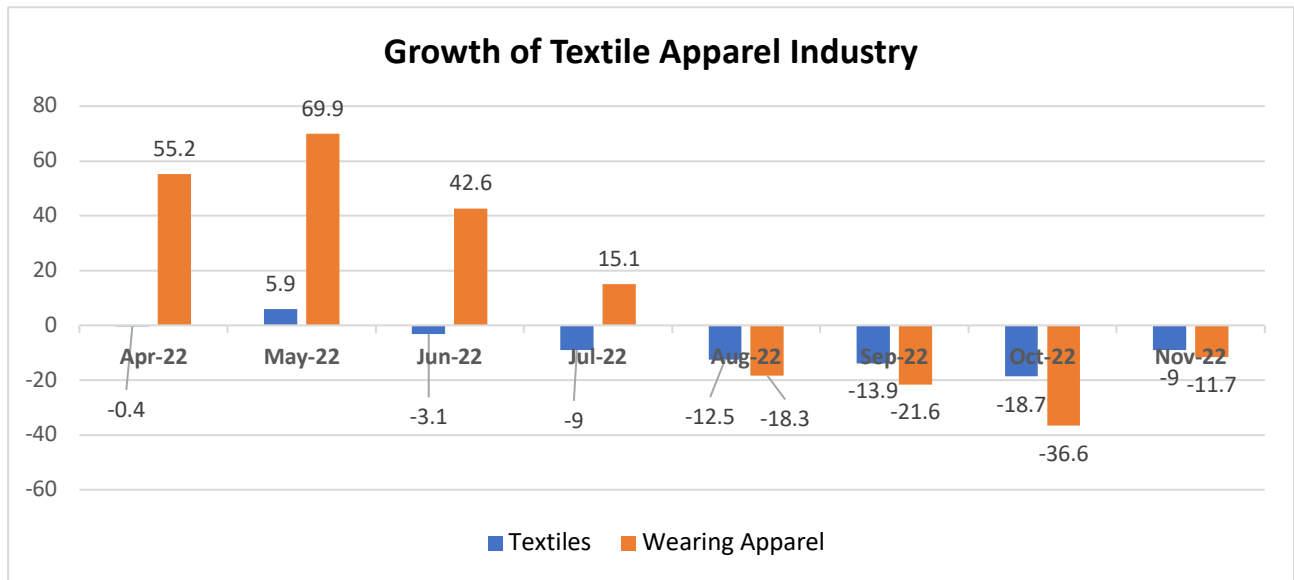
Being the second largest producer of silk in the world, the domestic demand of silk is outpaced by its supply and the rising demand is met by the imports. The Government is trying its best to boost rural silk production via policy supports and helping growers in developing sheds and weaving process.

## Growth of Textile Industries in India

### Growth of Textile and Apparel Industry

The textile industry and wearing apparel industry have a weightage of 3.3 per cent and 1.3 per cent, respectively in India's overall manufacturing segment. These segments recorded tepid growth as export demand for these products softened in conformity with the decelerating global growth (see Chart 1).

**Chart 1: Growth in Textile and Apparel Industry in India during FY23 (in %, YoY)**



Source: Economic Survey 2022-23

The distinctiveness of the textile industry lies in its strength both in the hand-woven sector and in the capital-intensive mill sector. The Indian mill sector is the second largest in the world. Traditional sectors like handloom, handicrafts and small-scale power loom units are the biggest source of employment for millions of people in rural and semi urban area. It provides direct and indirect employment and a source of livelihood for millions of people including many women and rural population. This sector is aligned well with the Government’s key initiatives of *Make in India*, *Skill India*, *Women Empowerment* and *Rural Youth Employment*.

In 2022, 91 Handloom Clusters received ₹ 76.60 Crore under HSS<sup>b</sup> (Hathkargha Samvardhan Sahayata Yojana) and gave 1,109 weavers better looms and equipment. 2,107 National Handloom Development Programme Handloom Cluster employees received skill-upgrading training. 141 marketing events received ₹ 18.49 crore. Mega Handloom Clusters received ₹ 10.40 crore for different operations under Comprehensive Handloom Cluster Development Scheme. Transport subsidy, price subsidy, and Raw Material Supply Scheme (RMSS) contributed 102.05 lakh kg of yarn, 73.79 lakh kg of yarn, and 175.84 lakh kg of yarn, respectively.<sup>12</sup> A total of 1,17,678 number of MUDRA loans was sanctioned to handloom sector across the country during last five years.<sup>13</sup>

A total of 272 marketing events were organized, benefiting 19330 artisans. ‘Pahchan cards’ were issued to 30 lakh artisan and uploaded on public domain.<sup>14</sup> 52 artisan producer companies were formed and supported. The conduct of 418 training programme and design workshops benefitted 12480 artisans. Modern toolkits were distributed to 13579 artisans. “Shilp Guru” & National Awards for the years 2017, 2018 & 2019 were awarded to 108 artisans.<sup>15</sup>

<sup>b</sup> <https://pib.gov.in/PressReleasePage.aspx?PRID=1695526>

The traditional sectors like mill, handloom, power loom and hosiery are the backbone of the textile industry. These sectors significantly contribute to the production stock of fabrics (see Table 3):

**Table 3: Sector-wise production of Fabrics (2013-14 to 2019-20)**  
(In Million sq. metres)

<b>Year</b>	<b>Total</b>	<b>Mill Sector</b>	<b>Handloom Sector</b>	<b>Power loom Sector</b>	<b>Hosiery Sector</b>
<b>2013-14</b>	62,624.00	2,531.00	7,104.00	36,790.00	16,199.00
<b>2014-15</b>	64,332.60	2,485.70	7,202.80	37,749.90	16,894.10
<b>2015-16</b>	64,585.20	2,315.60	7,638.00	36,984.50	17,647.20
<b>2016-17</b>	63,479.90	2,264.00	8,006.80	35,672.00	17,537.10
<b>2017-18</b>	66,823.70	2,157.10	8,080.00	38,945.00	17,641.60
<b>2018-19</b>	70,069.00	2,078.00	8,527.00	39,826.00	19,638.00
<b>2019-20</b>	75,106.00	2,028.00	7,111.00	47,158.00	18,809.00

Source: CMIE, Infomerics Economic Research

## Technical Textile

Technical textile comprises the textile materials and products manufactured primarily for technical performance and functional properties rather than aesthetic characteristics. Technical textile is divided into 12 broad categories (AGRO-TECH, BuildTech, Cloth Tech, Geotech, HomeTech, Indutech, Mobiltech, Meditech, Protech, Sports Tech, Oekotech, Packtech) depending upon their application areas.<sup>16</sup>

Technical textiles account for about 19 per cent of India's total textiles and apparel industry. The level of penetration of this sector in India is about 5-10 per cent as against 60-70 per cent in the developed world. Currently, the Indian technical textile market is the 5th largest in the world, estimated at \$ 22.5 billion in 2021-22. The growth of technical textile products in India has gained significant momentum in the past five years, growing at 9-10 per cent per annum.<sup>17</sup>

A large demand of technical textiles products in varied applications, coupled with the existing global market dynamics, suggests robust prospects for this sunrise industry in India. Therefore, the time for the industry to realize its far-reaching potential, is now apposite. As per the sources of the Ministry of Textile, the exports of technical textile products grew by 28.4 per cent in 2021-22. Exports grew to \$ 2.85 billion in 2021-22, up from \$ 2.21 billion reported in 2020-21.<sup>18</sup>

## Status of Textile Processing Industry in India

The textile processing industry reported a strong 18.7 per cent y-o-y growth in its sales revenues during the first quarter, which ended in June 2022. Its operating expenses corresponding to sales rose by 19.5 per cent. Raw materials, the industry's biggest operating expense, rose 22.8 per cent. Consequently, the industry's operating profit rose by 8.9 per cent, which was slower than revenue growth. Operating profit margin declined by 66 bps to 7.3 per cent. While interest declined by 8.8 per cent in non-operating expenses, depreciation remained almost at the previous year level. However, other income declined by 26.1 per cent. Therefore, the net profits of the industry rose by 8.1 per cent. The net profit margin deteriorated to 1.8 per cent in the reporting quarter from 2 per cent in the June 2021 quarter. The industry's June 2022 quarter performance was based on the interim results of 15 companies (CMIE, Industry Outlook). In the last three financial years, the profitability and distribution costs were not favourable for the textile processing industry in India (see table 4).

**Table 4: Textile Processing Industry: Distribution of Costs & Profitability Ratios**  
(In per cent)

Year	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22
<b>Operating expenses</b>	99.0	103.8	97.6	105.5	94.8	94.6	93.9	100.6	94.7
<b>Raw materials &amp; purchase of finished goods</b>	73.4	71.2	72.5	69.1	67.7	68.3	68.2	64.2	69.8
<b>Salaries and wages</b>	4.8	5.2	5.7	4.7	5.8	5.8	6.5	7.1	6.1
<b>Power &amp; fuel</b>	2.2	1.7	1.5	0.9	0.4	1.2	1.2	1.0	1.4
<b>Selling, marketing &amp; distribution expenses</b>	NA	NA	NA	NA	NA	0.1	0.3	0.2	0.1
<b>Other expenses</b>	18.7	25.7	18.2	30.9	20.9	19.2	17.8	28.1	17.3
<b>Other income as % of total income net of P&amp;E</b>	1.0	1.1	1.2	1.4	1.9	1.5	1.4	1.6	1.1
<b>Tax as % of PBT</b>	-3.5	0.1	-9.3	19.7	-126.3	71.8	-300.0	-6.1	84.2
<b>Operating profit margin</b>	0.7	-3.8	-1.1	-5.5	4.8	5.3	6.0	-1.8	5.2
<b>Net profit margin</b>	-12.9	-15.8	-11.6	-8.8	-1.8	0.0	-1.0	-9.1	0.2

\*FY23, FY24 Figures are Projected/Estimated;

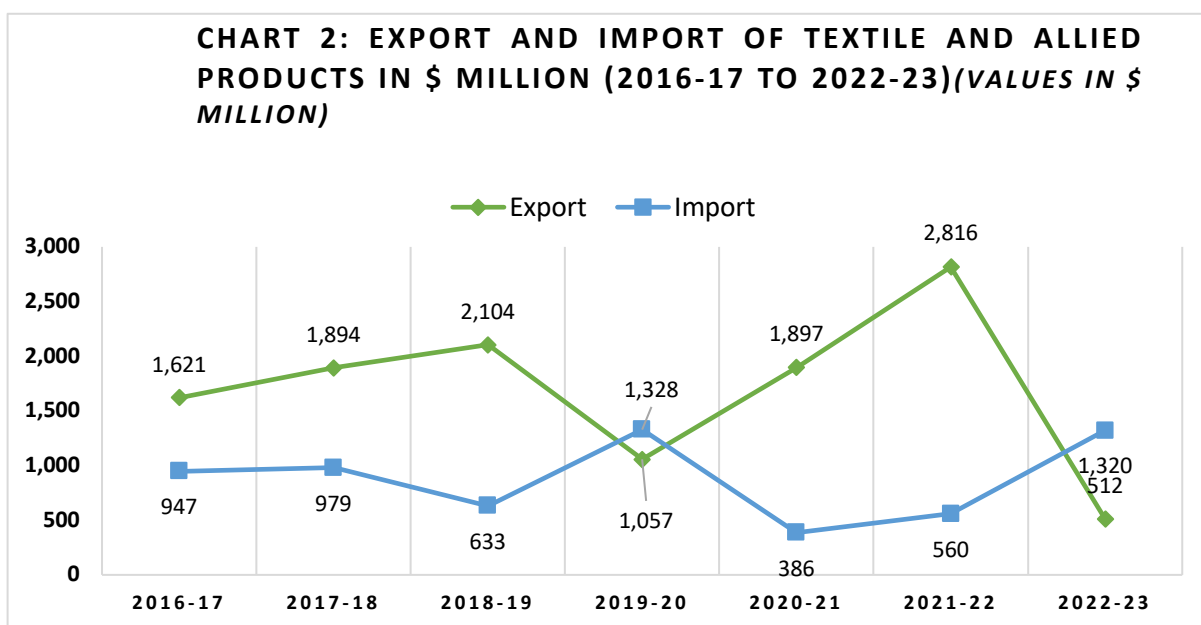
Source: CMIE / Infomerics Economic Research



## Export & Import of Textile Products

The textile industry of India is one of the largest in the world with vast raw material base and manufacturing capacity across the value chain. India is the 6<sup>th</sup> largest exporter of textiles and apparel in the world. Textiles. The Indian textile export basket consists of a wide range of items exported to over one hundred countries. India's textiles and clothing industry is one of the mainstays of the national economy. The share of textile and apparel (T&A), including handicrafts in India's total exports stood 12 per cent in 2020-21.

India's textiles products, including handlooms and handicrafts, are exported to more than 100 countries. The USA, EU-27 and UK, account for approximately 47 per cent of India's textiles and apparel exports. The Indian textile sector faced trade deficit due to muted demand for its textiles, economic slowdown together with rising inflation in the west, and the geopolitical tensions between Russia and Ukraine. Despite the unfavourable circumstances, the sector showed resilience and managed to cross the pre-Covid level of textile and allied product exports in 2021-22 (see Chart 2).



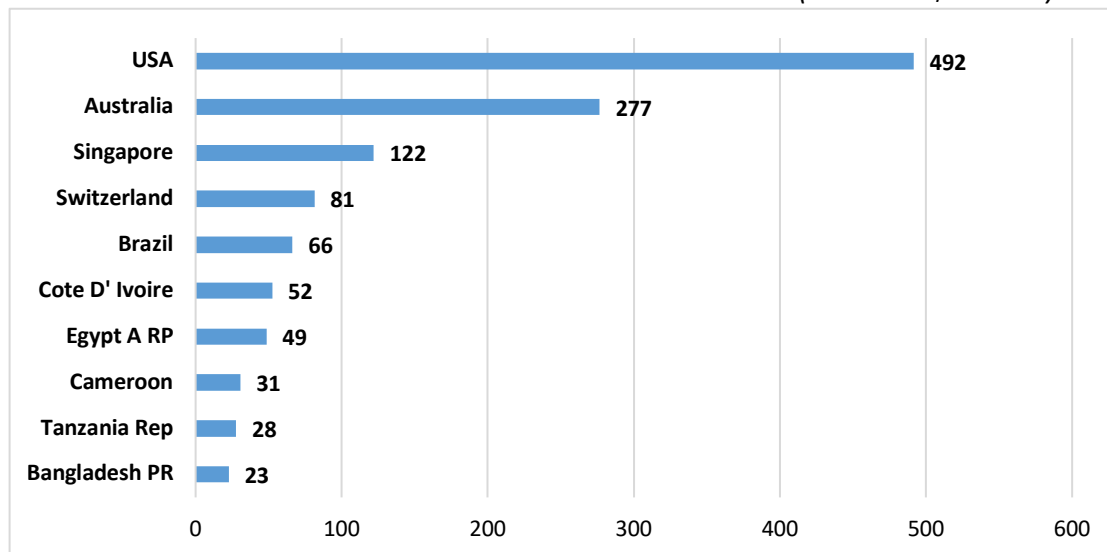
Source: Ministry of Commerce and Industry

As per the media reports, the textile exports from India are expected to fall 16 to 18 per cent (yoy) in FY23. The textile sector gradually recovered in FY21 and FY22. The overall textile exports from India, however, contracted by 13.4 per cent (yoy) at \$23.1 billion during the April-November 2022 period<sup>19</sup>. The reasons for the persisting modest demand for textile commodities in the domestic as well as in the global market are - a) rising prices of textile products driven by higher raw material and logistic costs, and b) the looming recessionary situation in the USA and European nations.

These issues negatively impact the industry because the USA and some of the European countries are the biggest buyers of Indian textiles. Despite all these difficult circumstances, the domestic demand is expected to pick-up in the second half (H2) of the fiscal year 2023-24 as the sentiment of customers may improve during the festive season later.

The USA is the biggest market for India’s textile and allied products. India exported textiles and allied products of the value \$ 492 million during the fiscal year 2022-23. After the USA, Australia is on the second spot in the list with \$ 277 million exports of textiles and allied products from India followed by Singapore (\$ 122 million), Switzerland (\$ 81 million), and Brazil (\$ 66 million) (see Chart 3).

**Chart 3: India's Textile and Allied Product Exports to Top 10 Countries in Fiscal Year 2022-23**  
(Values in \$ Million)



Source: Ministry of Commerce and Industry, Government of India (GoI)

The organizations/departments under the Ministry of Commerce and Industry, GoI, are involved in collecting, compiling, and disseminating trade-related statistics of different commodities in India. Trade-related data for textile industry is also collected in different groups based on the distinct types and nature of textile commodities produced in the country. The Kolkata-based Directorate General of Commercial Intelligence and Statistics (DGCI&S), Ministry of Commerce and Industry, GoI, analyses the trade related statistics of the textile industry. Exports of all the commodity groups in the textile industry except the group consisting of commodities – Toilet Linen and Kitchen Linen, Terry Towelling or similar Terry Fabrics, Cotton, other than Handloom registered a positive growth in the year 2021-22 as compared to the previous year 2020-21<sup>20</sup>. In the financial year 2022-23, April-December period, the export of groups consisting of commodities – flexible intermediate bulk containers of man-made textile materials and cotton yarn/fabrics/made-ups, handloom products, etc. registered a negative growth as compared to the corresponding period of previous financial year (See Table 5).

**Table 5: Export Growth of Different Groups of Textiles for the last two years and current years**  
(Value in \$ Million)

Commodity	2020-21	2021-22	% Change	April-December, 2021-22	April-December, 2022-23	% Change
Flexible Intermediate Bulk Containers of Man-Made Textile Materials	52.83	77.05	45.84	58.28	46.3	-20.55
RMG of All Textiles	12272.21	16014.81	30.5	11126.87	11841.78	6.43
Cotton Yarn/Fabs./Made-ups, Handloom Products, Etc.	9827.89	15298.03	55.66	11303.81	8174.31	-27.69
Textile yarn Fabric, made-up articles	1501.52	2065.45	37.56	1507.59	2061.15	36.72
Toilet Linen and Kitchen Linen, of Terry Towelling or Similar Terry Fabrics, of Cotton, other than Handloom	1,042.11	954.25	-8.43	710.91	750.82	5.61

Source: DGCI&S, Kolkata; DGFT, Ministry of Commerce and Industry

Of late, Indian textiles have had unfavourable economies of scale, as the most exporters of garments and other textiles are either small-scale or have limited operations whereas India's counterparts and textile trading countries like China and Bangladesh have large scale garment exporters with huge operations with good numbers<sup>21</sup>.

The recent rise in textile import values has caused concern in India. The Indian textile manufacturers are not only importing inflated raw materials – including raw cotton, fabrics, and man-made textiles, but also importing finished textile products. Textile and allied product imports by India jumped as much as 199.45 per cent (cumulative y-o-y growth) until January 2023 from a year ago to \$ 1349 million (see Table 6).

**Table 6: Import of Textile and Allied Products by India - 2022-23 (Values in \$ Million)**

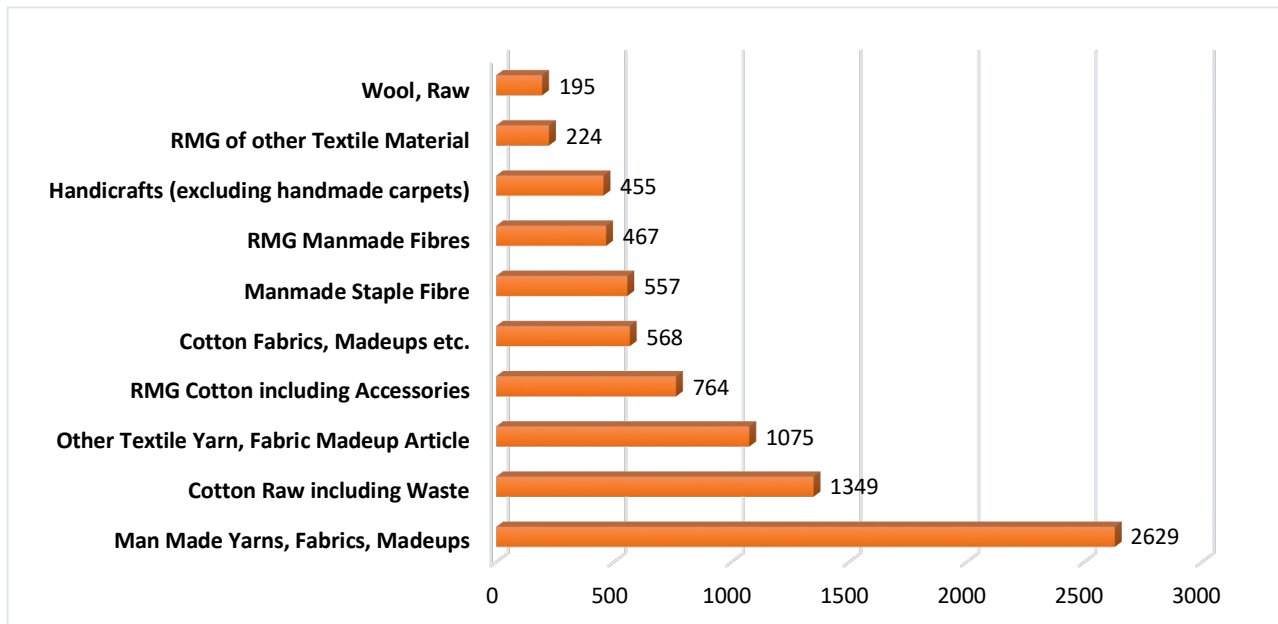
Month/Year	Current Year: Value	Previous Year: Value	Monthly YoY Growth	Current Year: Cumulative Value	Previous Year: Cumulative Value	Cumulative YoY Growth
April, 2022	53	33	57.55%	53	33	57.55%
May, 2022	96	53	80.39%	149	87	71.61%
June, 2022	126	69	82.55%	275	156	76.45%
July, 2022	194	58	236.10%	468	213	119.62%
August, 2022	296	40	640.50%	764	253	201.74%
September, 2022	317	44	620.79%	1081	297	263.79%
October, 2022	172	38	351.70%	1254	335	273.78%
November, 2022	49	26	84.63%	1302	362	259.94%
December, 2022	18	53	-66.78%	1320	415	218.36%
January, 2023	29	36	-19.49%	1349	450	199.45%

Source: Ministry of Commerce and Industry

Until November 2022, the apparel import increased by 53 per cent to \$1.2 billion and is expected to cross the psychological mark of \$ 10 billion by end of the fiscal year 2022-23. India is importing more than 40 per cent of its garment imports from Bangladesh alone and another 20 per cent from China.<sup>22</sup> After the duty-free access provision to enter large markets in trade partnering countries, the Indian textile firms have entered and set up units in large textile markets– including the US and EU.

Among the textile import groups, India largely imported man-made yarns, fabrics, and made ups of the value \$ 2629 million during the fiscal year 2022-23 followed by cotton as a raw material of the value \$ 1349 million (see Chart 4).

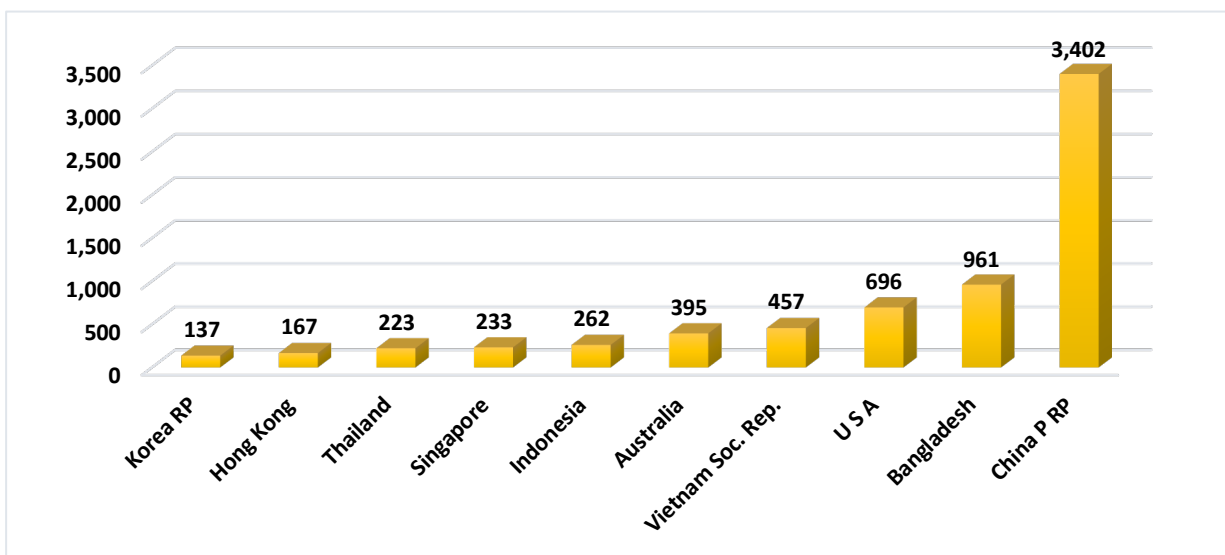
**Chart 4: Import of Top 10 Textile Products during the Fiscal Year is 2022-23**  
(Values are in \$ Million)



Source: Ministry of Commerce and Industry

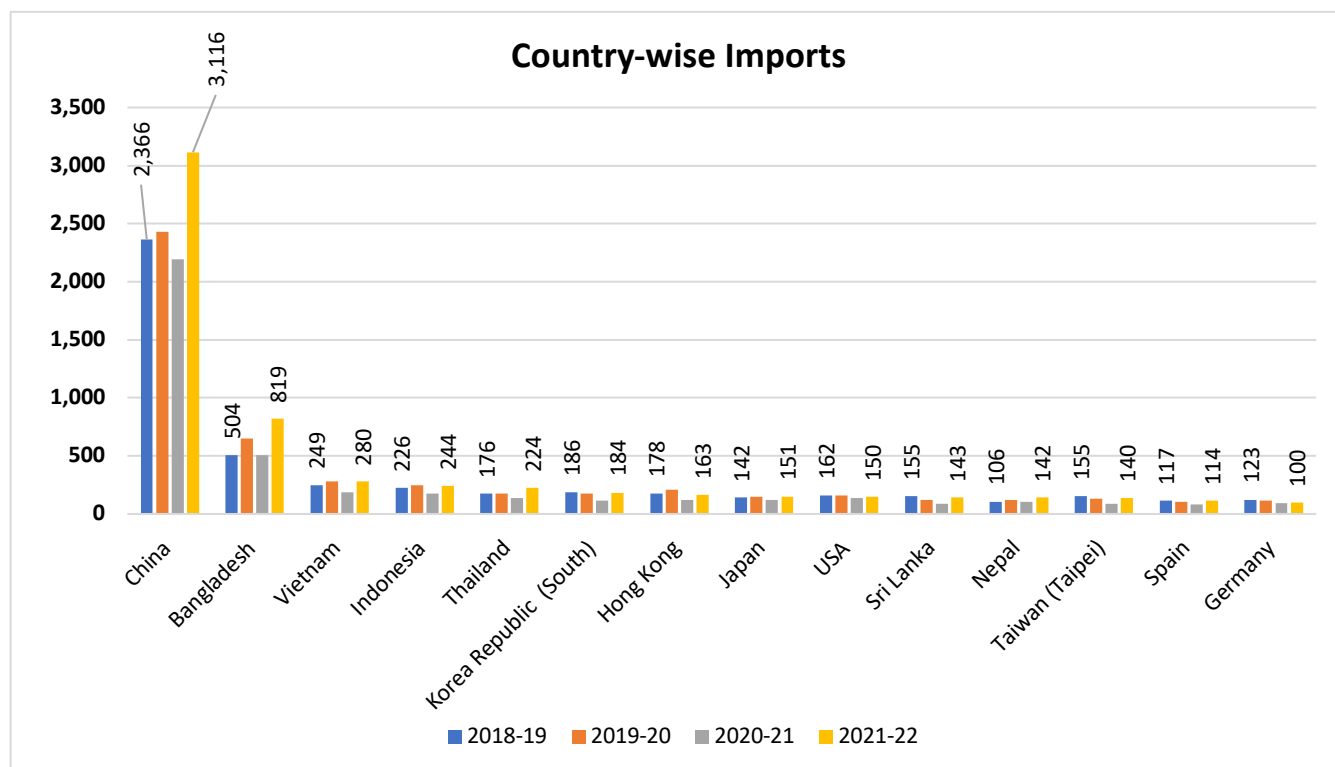
Recently, the Southern India Mills' Association (SIMA) allowed the imports of 51,000 million tonnes duty-free cotton from January 2023. Earlier, import of only 419 million tonnes of duty-free cotton was allowed by SIMA from 29<sup>th</sup> December to 31<sup>st</sup> December 2022 from Australia. The Indian textile industry is struggling to get the supplies of quality cotton to produce quality cotton textiles. With the increasing demand for cotton, India's recent trade pact with Australia will bring gains for both the countries unlike the similar pact with UAE (United Arab Emirates), and Mauritius already exhibiting better yields<sup>23</sup>.

**Chart 5: Top 10 Countries Textile Products Imports by India (in \$ Million)**



Source: Ministry of Commerce and Industry, GoI

**Chart 6: Country wise Imports of Textiles 2018-19 to 2021-22(Value in \$ million)**



Source: Infomerics Economic Research

## Institutional Initiatives

Successive reforms aimed at creating an enabling ecosystem to significantly strengthen India’s manufacturing sector have been of considerable contextual significance. Infrastructure development is one of the seven priorities of the Union Minister of Finance as spelt out in her Union Budget 2023 speech in the Parliament. A sharper focus on better infrastructure for the industrial development would help textile firms to reduce their logistic costs. The main focus of the budget was on enhancing the yield of extra-long staples (ELS) variety of cotton that would help in increasing the production of value-added garments and to reduce imports dependency of ELS cotton. The extension of credit guarantee scheme for MSMEs (Micro, Small, and Medium Enterprises) with an infusion of ₹ 9,000 crore, collateral for ₹ 2 lakh crore loans to MSMEs, effective from April 1, 2023, would also help labour and capital-intensive textile industry to match with growth target of the Indian economy.<sup>24</sup>

As a part of integrating India’s international trade of textile, recently the Government of India signed a pact with Australia. The trade pact between India and Australia can play a catalytic role in the growth of the Indian textile industry.<sup>25</sup> *The Economic Cooperation and Trade Agreement* between India and Australia came into effect on December 29, 2022. The two nations' business relations as well as the full range of goods and services are set to profit from this agreement, which is the first trade agreement between India and a developed nation in recent times.

The GoI is promoting technical textile at various platforms. Recently, the Ministry of Textiles is going to organise a flagship event in collaboration with *Federation of Indian Chambers of Commerce Industry (FICCI)* for the purpose of promotion of technical textiles, which includes textiles meant for some specific purposes like medical, defence, industrial, agriculture, automotive, building, packaging textiles, etc.

In order to position India as a global leader in technical textile, the Ministry of Textiles launched the scheme named - National Technical Textiles Mission (NTTM). Under this, an outlay of ₹ 1480 crore was allocated to promote and develop technical textiles sector in India, 74 research proposals valuing ₹ 232 crore were approved in the category of speciality fibre and technical textile. Other steps taken include development of 31 new HSN codes. The Synthetic & Rayon Textiles Export Promotion Council has been assigned the role of export promotional council for technical textiles.<sup>26</sup>

There is another scheme named *Silk Samagra-2*, implemented for three years from 2021-22 to 2025-26 for the development of sericulture industry in the country. Recently, the Government approved the plan of setting up of *seven PM Mega Integrated Textile Region and Apparel (PM MITRA) Parks*.<sup>27</sup> The PM MITRA parks will have integrated large-scale and modern industrial infrastructure facilities for the entire value chain of the textile industry. It will help in reducing not only the logistic costs and improve the competitiveness of Indian textiles but also boost employment generation, attract domestic as well as foreign investment, and position India firmly in the global textile market. The parks are expected to create a total of one lakh direct and two lakh indirect employment.

Other schemes such as SAMARTH- *Scheme for Capacity Building in Textile Sector, National Handloom Development Programme, Raw Material Supply Scheme, National Handicraft Development Programme, Comprehensive Handicrafts Cluster Development Scheme, Integrated Wool Development Programme, etc.*, have been implemented to promote and develop indigenous textile sector.

India has signed 13 Free Trade Agreements (FTAs), including the recently concluded Comprehensive Economic Partnership Agreement with UAE and Economic Cooperation and Trade Agreement with Australia, as well as six Preferential Trade Agreements with a variety of trading partners. Keeping in mind the national interest and domestic sensitivities, the Government entered into FTA negotiations with trading partners, such as, the United Kingdom, the European Union, and Canada to increase market access for Indian textiles.<sup>28</sup> The production of knitted clothing is still extremely competitive. Indian textile factories struggle to satisfy capacity demands from global companies that want to buy what they need from just two or three suppliers.<sup>29</sup>

## **Foreign Direct Investment**

The Government of India has taken several steps to modernize the textile industry, enhance exports and to promote FDI in textile sector on a pan-India basis. The Union Minister of State for Textiles in a written reply to a question in Lok Sabha in December 2022, informed that FDI in the textile sector from 2017-2022 was \$ 1522.23 million<sup>30</sup>. Over the years, India has put liberal and transparent investor-friendly Foreign Direct Investment (FDI) policy in place. There is 100 per cent FDI allowed in the textile sector under the automatic route.<sup>31</sup> As per a survey report by the Confederation of Indian Textile Industry (CITI), the textile sector recorded private investment of about ₹ 10,000 crore in first half of 2022-23 (i.e., April 2022 to September 2022). But the investment slowed down to around ₹ 7,000 crore in second half of the current fiscal.<sup>32</sup>

## Production Linked Incentives

Out of 67 applications received, the Selection Committee chaired by Secretary, Ministry of Textiles, Shri U.P. Singh selected a total of 61 applicants approved under Production Linked Incentive (PLI) Scheme for Textiles, starting from 1st January 2022. The proposed investment expected from applicants is ₹ 19,077 crore and a projected turnover is ₹ 184,917 crore with a proposed employment of 240,134. The Centre has approved the Production Linked Incentive (PLI) scheme for textiles, with an approved outlay of ₹ 10,683 crore, to promote the production of man-made fibre (MMF) apparel, fabrics, and products of technical textiles.<sup>33</sup> The approved outlay is for promoting the production of MMF apparel, MMF fabrics and technical textiles in the country. 56 applicants have completed the mandatory criterion for the formation of a new company and approval letters have been issued to them. Investments of ₹ 1536 crore (approx.) has been made so far under the scheme.<sup>34</sup> The main objective of the scheme is to enhance the production capacity of Indian textile firms. Also, the scheme will enable the textile sector to achieve the desirable size, scale, and enhancing export competitiveness among the firms.

## Industry Risks

The steady growth of the textile industry is hampered by obsolete machinery and the consequent need for modernization, low productivity and high cost of production, insufficient availability of quality cotton and ineffective implementation of the Scrapping policy. There are also issues of multi-layered issues involved in Quality Control Orders (QCO), negative impact of the cost of certification on sustainability, traceability and circularity, sickness and recession in the mill sector and inadequate incentivization necessitating formulation of the National Textile Policy.

New capacity additions in the cloth industry declined in the last four years. Project completions dropped from ₹ 4.45 billion in 2017-18 to ₹ 1.8 billion in 2018-19. It further dropped to ₹ 1 billion in 2019-20 and further to ₹ 415 million in 2020-21. The industry did not commission any new production capacities in 2021-22. Barring a couple of years, the project completions in the industry never dropped below ₹ 3 billion since 1995-96. Cloth companies on an average commissioned projects worth over ₹ 8 billion in each of the years during 1995-2018 (CMIE, Industry outlook). Textile mills in India, when compared to their counterparts in other parts of the world, operate for highest number of working days (357) in a year, despite several public and gazetted holidays.

The survey tabled in Parliament by Finance Minister Smt. Nirmala Sitharaman on January 31, 2023, showed tepid growth in manufacturing industries like textiles, apparel, and leather.<sup>35</sup> At present, the domestic production of textile industry turned sluggish because of higher input cost and cheaper garment imports. However, the sector showed resilience and recovered from the Covid-19 pandemic slump. Since, March 2022, the Index of Industrial Production (IIP) has consistently decreased. The IIP value decreased from 118.5 in March 2022 to 102.3 in October 2022. Also, on a cumulative basis from April to October 2022, the IIP value is lower than the corresponding period in 2021. The sector could not regain the level of production level achieved prior to the pandemic (see Table 6). Stagnant or declining production across the value chain, leveraging of Free Trade Agreements by Bangladesh, Vietnam, etc. to increase their export share, lack of Preferential Trade Agreements with key importers and longer lead time and high reliance on imports for almost all textile machinery causes concern. These and other issues need to be addressed speedily and effectively to enhance India's global competitiveness on a sustained basis.



**Table 6: IIP Index of Textiles (From March 2021 to November 2022)**

Month	Index (Wt=3.29)
Mar-21	119.6
Apr-21	114.6
May-21	105.3
Jun-21	111.3
Jul-21	117.8
Aug-21	120.2
Sep-21	121.4
Oct-21	125.6
Nov-21	117.9
Dec-21	124.9
Jan-22	122.6
Feb-22	113
Mar-22	118.5
Apr-22	114.1
May-22	111.5
Jun-22	107.8
Jul-22	107.2
Aug-22	105.2
Sep-22	104.5
Oct-22	102.1
Nov-22	107.3
<b>Cumulative</b>	<b>Apr-Nov</b>
2018-19	119
2019-20	115.6
2020-21	78.7
2021-22	116.8
2022-23	107.5

Source: CMIE/Infomerics Research

## Credit Deployment

The credit offtake by the textile industry decreased among all segments in the manufacturing sector. In November 2021, there was 8.6 per cent of the total credit deployed into industry sub-segments, which decreased to 7.1 per cent in April 2022 and 3 per cent in November 2022.

## Way Forward

The position of the textile industry in India can be understood by Porter's Five Forces model. The Five Forces model is named after Harvard Business School professor Michael E. Porter<sup>c</sup>. Porter's 5 forces are<sup>36</sup>:

- Competition in the industry
- Potential of new entrants into the industry
- Power of suppliers
- Power of customers
- Threat of substitute products

<sup>c</sup> Michael E. Porter (1979). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*.

Considered in a historical perspective, the issues of high production costs, un-friendly labour law, logistic disadvantages, rising transaction cost, declining in mill sector, globalization have beleaguered the textile industry in India. Rising inflation, Russia Ukraine war, geo-political disruptions, high energy prices, and depressed customer sentiments in the United States, Europe and other big markets resulted in declining growth rates in the second half (H2) of 2022. Most of the top companies, including Welspun, Vardhman, Arvind, Trident, KPR Mills, Indo Count, RSWM, Filatex, Nahar Spg, and Indorama in the textile sector witnessed an increase in cotton and yarn prices, leading to a demand drop of at least 10 per cent, so far, during the beginning of the FY23. The price of cotton in India more than doubled to cross ₹ 100,000 per candy<sup>d</sup> during the current financial year, leading to an increase in yarn prices too. With persisting fears of the downturn caused, *inter-alia*, by higher domestic cotton prices and other costs, sluggish overseas orders, rising interest rates on bank loans and higher labour costs, the industry bodies have approached the Government seeking a ban on the futures trading of cotton and restrictions on cotton and yarn exports.

The Indian economy is better positioned and is outperforming major economies of the world. The globally synchronized deceleration stemmed from geopolitical headwinds, which impacted Europe, United States, and other big markets severely where the consumers cut their spending on cloths and apparel. It is expected that the slowdown would continue this year and the risk of layoff is imminent in the textile industry triggered by de-consumption as a choice made by individuals together with the forced de-consumption triggered by inflation. This aspect has severe implications for the lives and livelihoods of over 45 million people.

While the textile value chain is well-developed in India, the Indian textile industry is constrained by the conspicuous absence of the economies of scale. Automation and digitization are the core areas the Indian textile industry needs to go to scale and achieve efficiency in the process. Industry 4.0 implies the use of a slew of technologies aimed at more efficient, automated and data driven manufacturing. The Indian textile industry should take benefits out of the leverages Government is providing through support schemes like PLI, PM MITRA, Export incentives, setting-up of *Seven Pradhan Mantri Mega Integrated Textile Region and Apparel (PM MITRA) Parks* by the Government in Greenfield/Brownfield sites with an outlay of ₹ 4,445 crore for a period of seven years up to 2027-28 that may produce better results in coming years for the industry.<sup>37</sup>

Further, the Indian technical textiles market has a lot of potential to grow and compete in the global markets. In order to improve this segment, there is a need to set some standards that can promote the technical textiles industry and ensure quality checks for the sector in consultation with the domestic industry in India. Standard quality norms together with the entry of large global retailers, enhanced capacities across the value chain, right investment incentives, competitive cost of capital and matching logistics infrastructure and free trade agreement with select large countries will provide an impetus to this industry, which has significant multiplier effects and high employment intensity. Tailwinds include strong domestic textile market, rapid expansion of the retail sector, the availability of quality cotton; besides presence of spinning, weaving, processing units, viscose, and polyester fibre mills across industrial clusters, the China Plus one sourcing strategy, the government's accent on textiles and investments.

In sum, modernization and effective use of technology is a pre-requisite to the growth and structural transformation of the textile industry in India. Innovation and R&D must permeate all along the value chain both to launch industry into a higher orbit and advance economic growth in quantitative and qualitative terms.

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<sup>d</sup> 1 Candy = 356 kgs [ Ginned Cotton]

1 Candy = 20 Maund =746.48 Kilos, i.e., [Raw Cotton - un-ginned]

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