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INDUSTRY OUTLOOK

TEXTILE INDUSTRY OF INDIA: TRENDS AND PROSPECTS

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Introduction

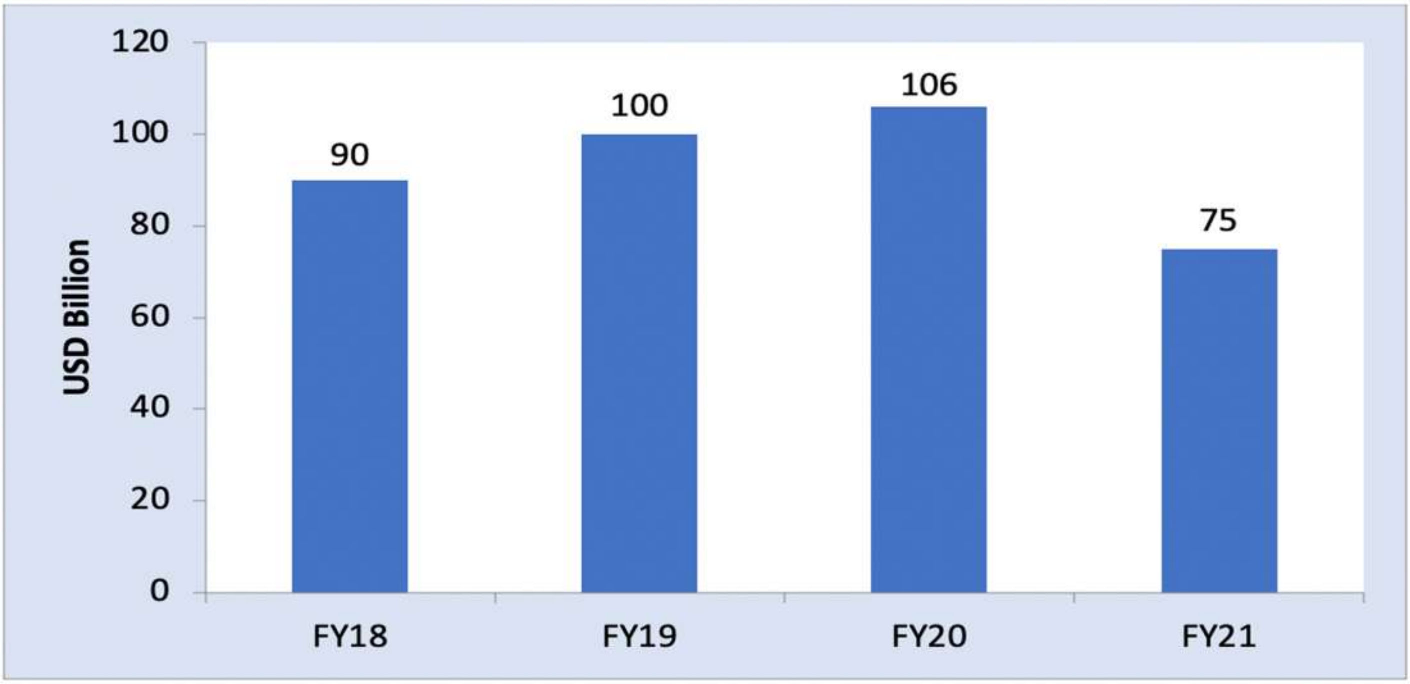
Considered in a proper historical and comparative perspective, cotton production goes back to the ancient civilization of Indus Valley of India and Pakistan-some estimates place it at 7,000-years. The growth of the industry has been fostered by conducive locational factors, such as, availability of raw cotton, market, transport, etc. It is estimated that 80 per cent of the industry is coterminous with cotton growing tracts.

The Indian textile industry is one of the largest in the world with a large unmatched raw material base and manufacturing strength across the value chain. It is the second largest producer of man-made fibre (MMF) after China.[1] The textiles and apparel (T&A) industry contribute 2.3 per cent to the country's GDP, 13 per cent to industrial production and 12 per cent to exports.[2] The Indian textiles industry, carrying hand-spun and hand-woven textile sectors at one end of the spectrum and capital-intensive sophisticated mills sector at another end of the spectrum, is extremely vast and varied.

Known to be the second largest employment generating sector in the country after agriculture, the Indian textile sector provides direct employment to more than 45 million people and source of livelihood for over 100 million people indirectly, including a large number of women and rural population.[3] Other major sub-sectors that comprise the textile sector include the organized cotton/manmade fibre textile mill industry, the manmade fibre/filament yarn industry, the wool & woollen textile industry, the sericulture and silk textiles industry, handlooms, the jute & jute textiles industry and textiles exports.

Indian readymade garments/apparels (RMG) industry is the largest segment of the Indian T&A industry. The structure of the garment industry in India is multifaceted with the bulk of units being small and medium firms. Nearly 80 per cent of the national production of garments is concentrated in ten clusters: Kolkata, Mumbai, Tirupur, Ludhiana, Indore, Bellary, Jaipur, Bangalore, Chennai and Okhla. Apparel production is dominated by eight clusters, i.e., Tirupur, Ludhiana, Bangalore, Delhi NCR, Mumbai, Kolkata, Jaipur, and Indore. The Chart 1 below shows the market size of the domestic T&A industry of India.

Chart 1: Domestic Textile and Apparel Industry in India (US$ billion)



Source: Textile and Apparel (July 2021), India Brand Equity Foundation (IBEF).
Available at https://www.ibef.org/industry/indian-textiles-and-apparel-industry-analysis-presentation

I. Technical Textiles

Technical textiles are defined as textile materials and products used primarily for their technical performance and functional properties rather than their aesthetic or decorative characteristics. Unlike conventional textiles used traditionally for clothing or furnishing, technical textiles are used basically on account of their specific physical and functional properties and mostly by other user industries. Technical textiles are used individually or as a component/part of another product. Technical textiles are used individually to satisfy specific functions such as fire-retardant fabric for uniforms of firemen and coated fabric to be used as awnings. As a component or part of another product, they are used to enhance the strength, performance, or other functional properties of that product.

From a trade perspective, there was no specific chapter dedicated to technical textiles in the ITC Harmonised System of Nomenclature (HS) Code published by the Directorate General of Foreign Trade.[4] As a result, either there was a misclassification of non-technical textiles items being declared as technical textiles or the genuine technical textiles not being correctly captured and promoted as a part of trade policy, as well as the import-export statistics also was not being rightly captured.

Subsequently, the industry had been demanding a separate classification of technical textiles. In keeping with the benefits of the stakeholder in mind, in January 2019, 207 HSN Codes have been classified and notified as technical textiles with a view for ease of doing business.[5] Consequently, the import-export performance of the 12 listed segments is given below (Table 1).

In terms of value, Clothtech and Sportech have the smallest share both in exports and imports. On the other hand, Packtech has the highest share in exports, whereas Mobiltech has the highest share in imports.

Table 1: Import and Export Performance of Technical Textiles (₹ crore)

	Export			Import		
Segment	***FY20***	***FY21***	***% Growth***	***FY20***	***FY21***	***% Growth***
Agrotech	630	692	18%	338	289	32%
Buildtech	728	729	-1%	1900	1221	2%
Clothtech	202	207	13%	267	196	32%
Geotech	1129	1841	65%	1495	1262	42%
Hometech	136	166	73%	571	381	-18%
Indutech	1878	1824	23%	2513	2330	25%
Meditech	1122	1224	16%	612	850	113%
Mobiltech	1430	1325	1%	4608	4061	40%
Packtech	5247	5807	58%	571	440	-21%
Protech	511	441	-5%	419	414	80%
Sportech	256	298	13%	123	129	61%
Nonwovens	1001	1679	108%	1911	1662	12%
Total	**14270**	**16233**	**14%**	**15328**	**13235**	**-14%**

Note: Negative Values are red-marked.
Source: Indian Technical Textile Association, E – Bulletin (Issue No. 73).
Available at http://ittaindia.org/sites/default/files/ITTA%20e-bulletin%20May-June%2021%20issue.pdf

II. Foreign Competition

As far as the domestic market is concerned, the competition stems mainly from countries, such as, China, Bangladesh, and Vietnam. However, things are better in the global context. The following table (Table 2) gives the export and import share of top 10 nations. China accounts for more than 43 per cent of the global share in textile exports while India's share is just above 4 per cent.

On the import side, EU accounts for more than 24 per cent of the global share. Importantly, the given top 10 exporting nations account for 83 per cent in total global textile exports while the given top 10 importing nations account for 59 per cent in total global textile imports.

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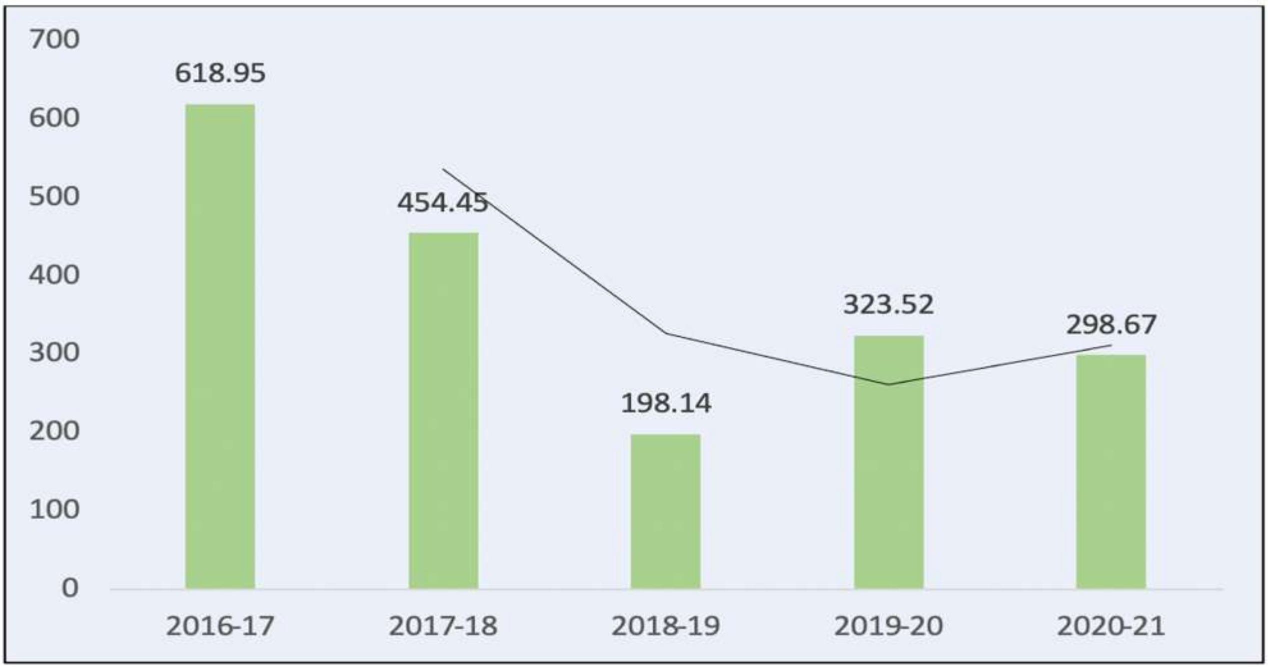
Table 2: Import-Export Value and Share of Textiles (2020)

Country	Export Value ($ bn)	% Share in World	Country	Import Value ($ bn)	% Share in World
China	154	43.5	EU	87	24.3
EU	64	18.1	US	45	12.6
India	15	4.2	Vietnam	16	4.4
Turkey	12	3.3	China	14	3.9
US	11	3.2	Japan	12	3.3
Vietnam	10	2.8	UK	11	3.0
Republic of Korea	8	2.2	Bangladesh	9	2.5
Pakistan	7	2.0	Canada	6	1.8
Chinese Taipei	7	2.0	Republic of Korea	6	1.6
Japan	6	1.6	Indonesia	5	1.5
Total	**294**	**83**	**Total**	**211**	**59**

Source: World Trade Statistical review 2021.
Available at https://www.wto.org/english/res_e/statis_e/wts2021_e/wts21_toc_e.htm

Foreign Direct Investment (FDI) of up to 100 per cent is allowed in the textile sector through the automatic route. International apparel giants like Hugo Boss, Liz Claiborne, Diesel and Kanz, have already started operations in India. In April 2021, South Korea's textile major Youngone announced that it will start its operations within six months at Kakatiya Mega Textile Park in Warangal with an investment of about $120 million.[6] The FDI equity inflows for the last quinquennium is given in the figure (Chart 2) below. The FDI amounts has been fluctuating over the years with Japan, Mauritius, Netherlands, Cyprus, and Singapore pouring in the largest amounts of cumulative FDI for the given years.

Chart 2: FDI Equity Inflows ($ million) in Textiles (incl. Dyed and Printed)



Source: https://pib.gov.in/PressReleasePage.aspx?PRID=1743278

The Government of India (GoI) aims to develop the industry to be worth $300 billion by 2025-26, and to this end, the GoI has pushed for a Production-Linked Incentive (PLI) Scheme worth US$1.42 billion [7] for the setting up of seven mega textile parks, and to increase the production and exports of man-made fibres. India's state-wise textile exporting special economic zones (SEZs) are as follows:

Brandix India Apparel City Private Ltd. – Visakhapatnam, Andhra Pradesh

Mas Fabric Park Pvt. Ltd. – Nellore, Andhra Pradesh

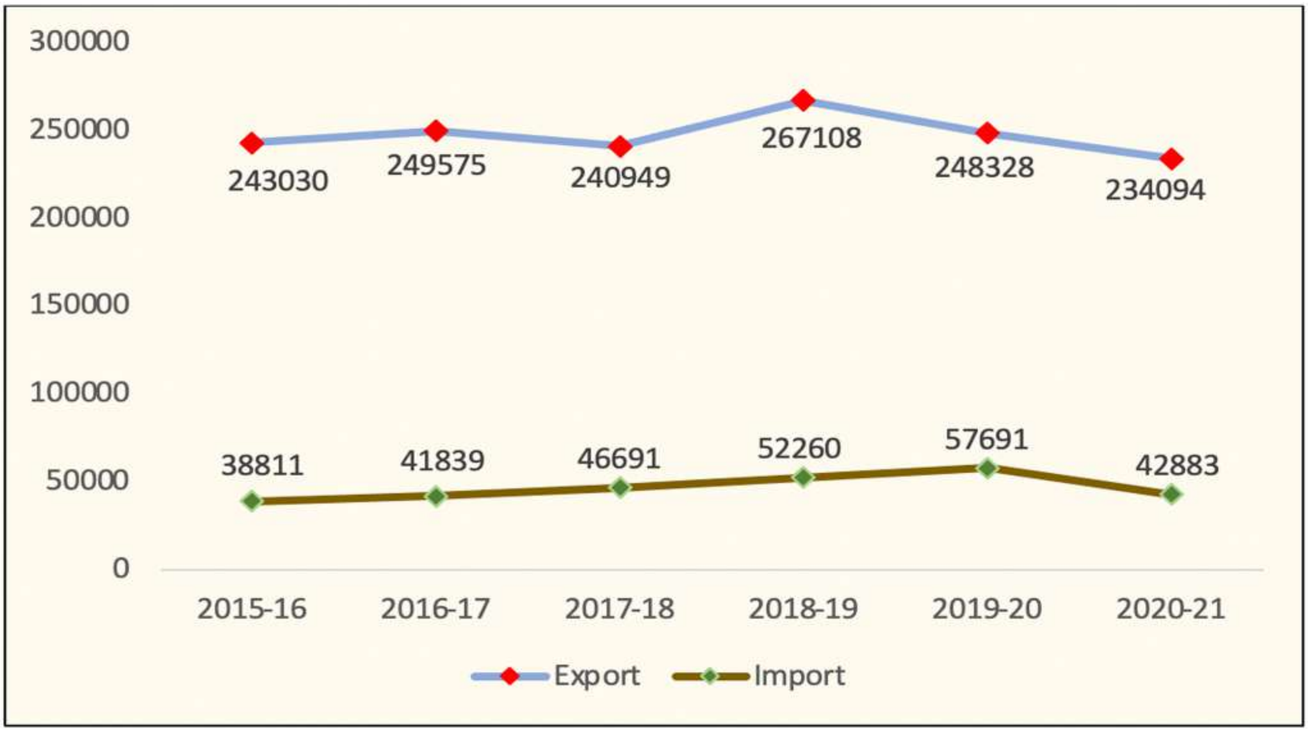
Ksidb SEZ Kannur – Kerala

Ig3 Infra Ltd – Uthukuli, Tamil Nadu

III. Import-Export Scenario

India is the 6th largest exporter of T&A in the world. The share of T&A including handicrafts in India's total exports stands at a significant 11.8 per cent in 2019-20 along with a share of 5 per cent of the global trade in T&A. For simplicity, the export-import figures for textiles for recent years are given in the figure (Chart 3) below.

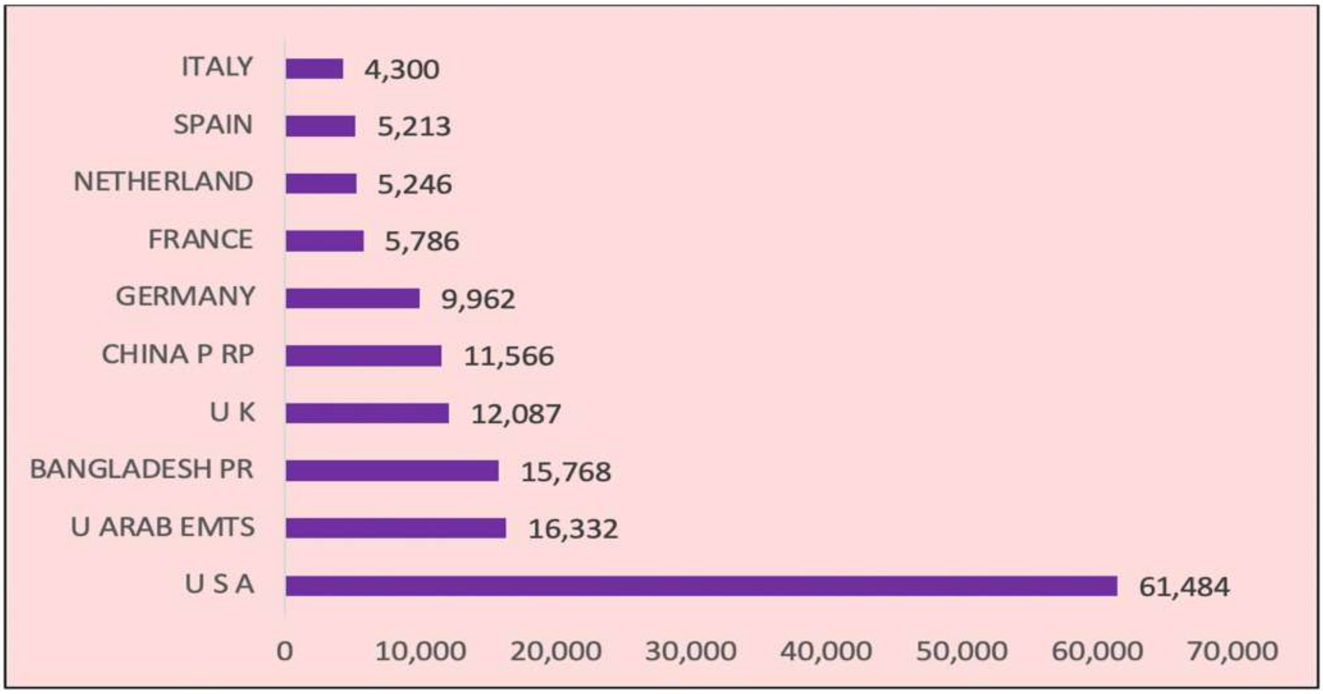
Chart 3: Textile Products Export-Import (₹ crore)



Source: https://dashboard.commerce.gov.in/commercedashboard.aspx

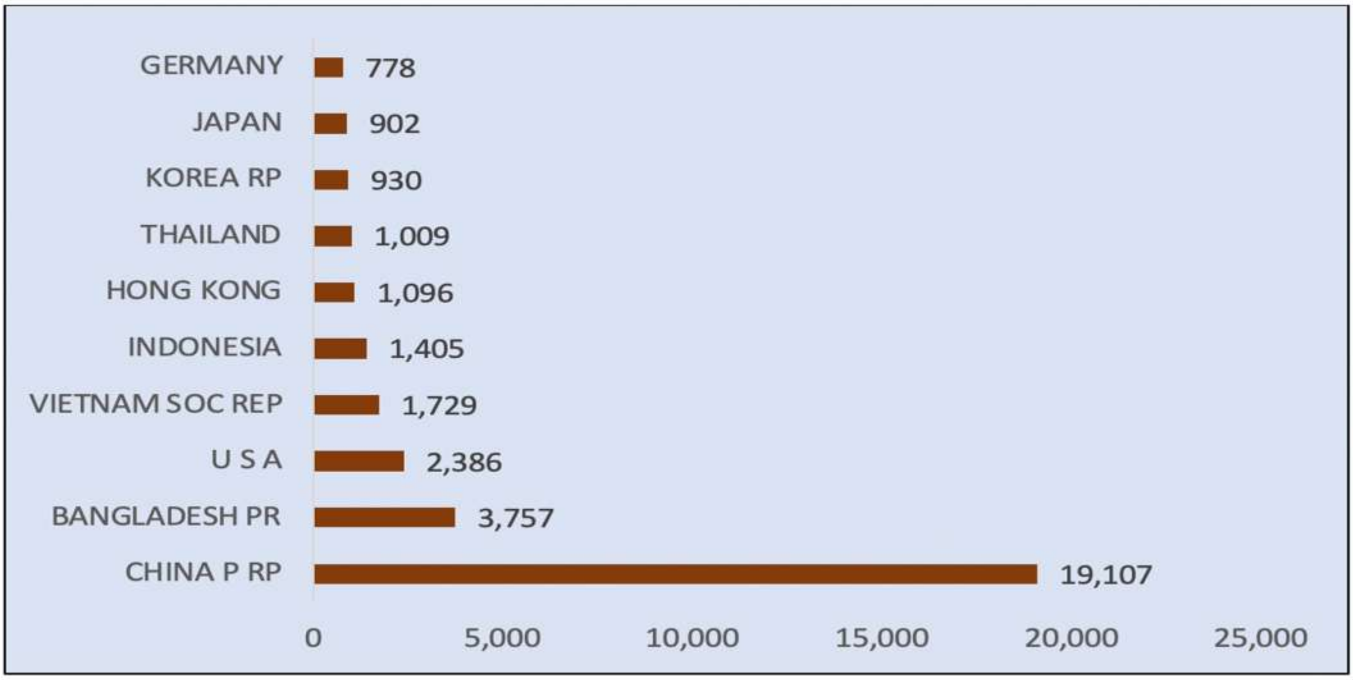
The top 10 export and import destinations for Indian Textiles are given in the figures below (Chart 4 & 5). USA accounts for a massive share for the Indian textile product basket whereas the import side is dominated by China where huge amounts are imported from China. The given top 10 (Chart 4) accounted for more than 63 per cent of textile exports for the year 2020-21 and the given top 10 (Chart 5) accounted for more than 75 per cent of textile imports for the year 2020-21.

Chart 4: Top 10 Export Destination for Indian Textiles (2020-21) (in ₹ crore)



Source: https://dashboard.commerce.gov.in/commercedashboard.aspx

Chart 5: Top 10 Import Source for Indian Textiles (2020-21) (in ₹ crore)



Source: https://dashboard.commerce.gov.in/commercedashboard.aspx

The decline in exports (in Chart 3) has been mainly due to the on-going global slowdown, which was aggravated due to the Covid-19 crisis. The latter resulted in large scale disruptions in supply chains and demand resulting in cancellation of orders. Other main reason for decline is high tariffs faced by Indian exporters in key markets, such as, EU as compared to zero duty access given to competing nations like Bangladesh, Sri Lanka, Pakistan, and Turkey, which affected export performance. Further, logistic is one of the major constraints with Indian exporters. For comparative purposes, the turnaround time (TAT) (from order to delivery) is 50 days for Bangladesh and 63 days for India, whereas, time taken to reach port is 1 day for Bangladesh and 7-10 days for India. [8]

IV. Government Initiatives

There have been a slew of government initiatives to help and bolster the sector. Historically such initiatives include introduction of Technology Mission on Cotton (TMC), Technology Upgradation fund Scheme (TUFS), Scheme for Integrated Textile Park (SITP), reduction in customs duty on import of state-of-the-art machinery, Debt Restructuring Scheme, Apparel Training and Design Centres (ATDCs), 100 per cent FDI under automatic route, National Centre for Textiles Design (NCTD) website, National Institute of Fashion Technology (NIFT) etc.

Attempts have been made for development of Common Effluent Treatment Plant (CETP), Cotton Sales Depots, Scheme for Integrated Textile Parks (SITP), National Textile Corporation (NTC), Skill Development, etc.

Among other measures, mention here be made of e-marketing platforms of Central Cottage Industries Corporation of India (CCIC), and Handicrafts and Handlooms Export Corporation of India (HHEC); "Mega Integrated Textile Region and Apparel Parks (MITRA)" for large investment & employment; National Technical Textiles Mission with ₹1480 crore. Indian technical textiles market could increase at CAGR of 7.6 per cent in Asia-Pacific to reach at USD 23.3 billion in 2027, up from USD 14 billion (2020).

Digitalizing textile manufacturing via Digital printing and finishing, AI, and the like; and the introduction of 'Bulk Quantity Discount Scheme' (₹4400 per candy on purchase of 10,000 bales a day and above and ₹3200 per candy even for 500 bales) by CCI to help meet high raw cotton prices & declining cotton yarn export also constitute important measures.

Technical Textiles

In an attempt to strengthen indigenous production through the state and attract investors, the nodal agency for investment promotion and facilitation for the Government of Tamil Nadu – Guidance has signed up for Techtextil India 2021 – the leading International Trade Fair for Technical Textiles and Nonwovens. The Tamil Nadu Government in its pledge to promote technical textiles is willing to provide physical, financial, and other support in the vein to reduce import dependency (in products like artificial ligaments, seat belt webbings, etc.) and bring investments in R&D, manufacturing, and innovation by partnering with global technical textiles companies. [9]

Additionally, with a view to boost technical textiles sector in the country, the Government earlier approved the proposal for creation of National Technical Textiles Mission (NTTM) for a period of 4 years (2020-21 to 2023-24) with an outlay of ₹1480 crores. [10] The NTTM would: -

• Focus on research and innovation and indigenous development of specialty fibres from Carbon, Nylon-66, Glass, Aramid, and other high technology polymers; increase application of geo-textiles, agro-textiles, medical textiles, protective textiles, and other segments of technical textiles in various application areas.

• Promote awareness amongst users, bring in large scale investments, and encourage high-end technical textiles products.

• Enhance India's exports of technical textiles by 2024 through focused attention on highest traded products; and

• Create a robust human resource in the country, both through specialized higher education and skill development of technical manpower of the country.

Khadi Promotion

In January 2021, the Indo–Tibetan Border Police (ITBP) signed an MoU with Khadi and Village Industries Commission (KVIC) for supplying 1.72 lakh cotton khadi durries every year for the Central Armed Police Forces (CAPF). In June 2021, KVIC recorded a 7.71 per cent growth in gross annual turnover to ₹95,741.74 crore (US$12.85 billion) from ₹88,887 crore (US$11.93 billion) in FY20. [11]

Programme to Enhance Wages

The government of India has launched the Scheme for Capacity Building in Textile Sector also called as SAMARTH to address the shortage of skilled workers in the textile sector. It aims to incentivize the efforts of the industry in creating jobs in the organized textile and related sectors. Besides, it envisages to promote skilling and skill up-gradation in the traditional sectors through respective sectoral divisions/organizations of Ministry of Textiles. The scheme has set a target to train 10 lakh persons. [12]

These are some of the recent initiatives taken apart from various other already taken under which various schemes are extended for a further period. [13]

Industry Risk/Challenges

The industry has been severely hit by the triple whammy of demonetization, GST & COVID-19 generating both demand and supply side pressures. There are also generic factors like weakened -consumer demand or production networks; obsolete technology, inflexible labour laws, infrastructure bottlenecks, and fragmented industry; major role of the unorganized and small players hit by triple whammy of demonetization, rolling out of GST and the COVID-19 pandemic.

Globally, manmade textiles and garments are in high demand, with ratio of cotton-to-manmade-fibre consumption being 30:70. Lags make unavailable competitively priced manmade fibres.

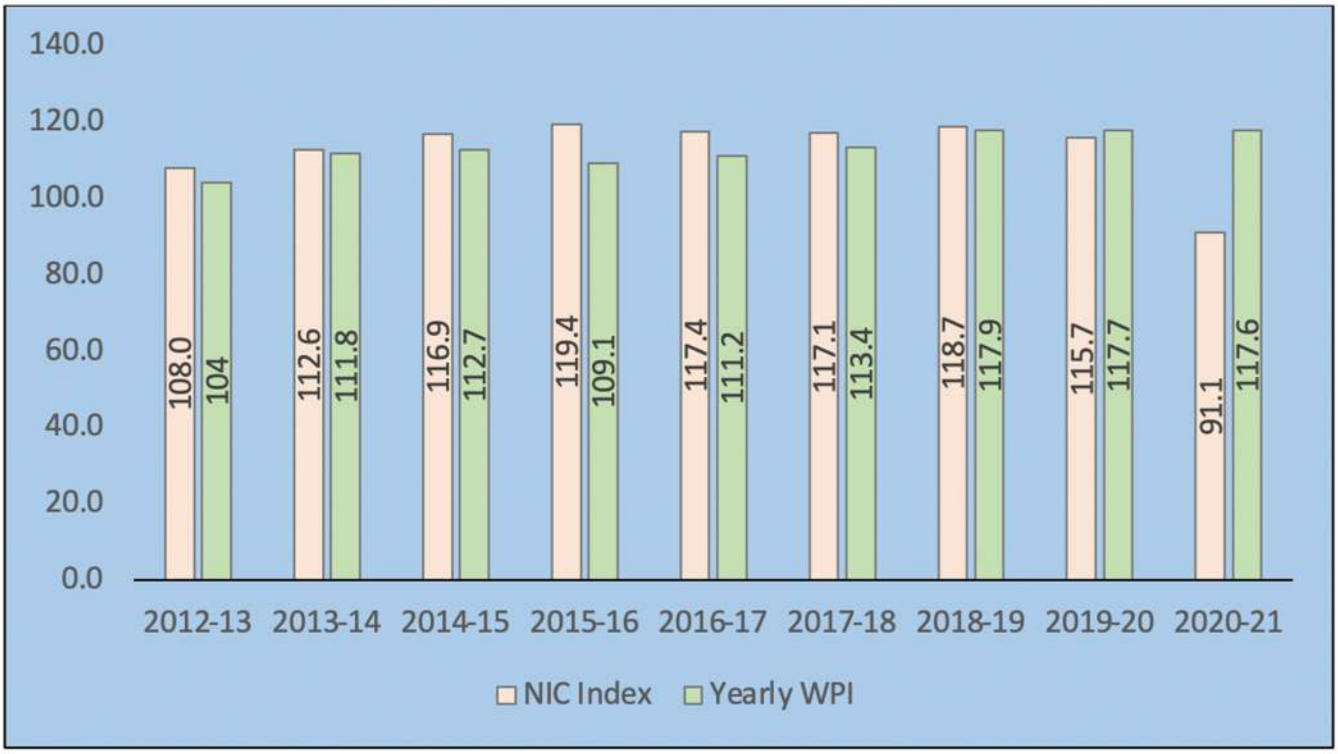
More specifically, industry risk factors relate to the following aspects:

(i) GST Issue: The sector has been lately witnessing some tax issues. The inverted duty structure is present only in the man-made fibre sector. Allegedly, the government is looking at 12 per cent rate from January 2022 for fabrics and garments priced less than ₹1,000. The textile and clothing industry has sought a uniform 5 per cent goods and services tax (GST) across the textile value chain for better compliance. [14]

(ii) Gap in Proposed Outlay and Amount Approved: The Ministry of Finance approved only ₹3,631.64 crores for the Textile Ministry as against proposed outlay of ₹16,883 crore during the FY22. The main reason for this huge difference in the proposed and approved Budget Estimate (BE) is that the proposal of ₹12,988 crores for Cotton Corporation of India is still under process and a provision of ₹136 crores has been made in BE 2021-22. However, the Ministry has assured that they would endeavour for efficient utilisation of allocated funds and prioritise the expenses in a manner to ensure minimum effect on the reduced allocations to the beneficiaries of the scheme. [15]

(iii) Low Performance and High Price: The textile industry has been lately witnessing low manufacturing activity accompanied by high prices for the final product. This is reflected in the annual NIC-2 digit and sectoral indices of industrial production wherein the index for 'manufacturing of textiles', carrying a weight of approximately 3.3 has fallen below the 100 mark settling at 91.1 for the first time in roughly a decade whereas the yearly wholesale price index for 'manufacturing of textiles', carrying a weight of roughly 4.9, has been nearing the 118 point mark which is 6-7 notches above the decadal average of approximately 112 (see Chart 6 below).

Chart 6: NIC-2008 (2-digit) Index and Yearly Wholesale Price Index (base 2011-12)



Source: http://mospi.nic.in/iip and https://eaindustry.nic.in/

(iv) Poor Textile Machinery Performance: The Indian textile machinery industry has not been able to capture major market share despite ranking high on other parameters. This situation occurred ostensibly because of weak demand whereas the reality is that the producers were unable to deliver the optimum when they saw the demand upsurge. Other reasons pertain to weak strategy, lack of marketing, and lack of commitment. [16]

In case of cotton textiles, there are several challenges. Such challenges include:

- Growing popularity of synthetic fibres because of low-cost and durability

- Higher cotton production cost because of high per-acre energy costs in manufacturing and logistics, water consumption. Labour shortages hamper supply quantity and delivery schedules.

- Price volatility in cotton industry; high competition for acreage among agricultural crops

- Employment in hometowns for migrant workers and high attrition

Focus Areas

- Investment in value added services, e.g., marketing, warehouse rentals, logistics, courier, other product fulfilment costs. Additional activities attract inverted duty structure- higher input tax than final output tax.

- Apparel industry-refund of input tax credit (ITC). Govt.- Rebate of State and Central Taxes and Levies (RoSCTL) to refund input tax. But there are some persisting challenges.

- Quicker alignment to GST regime, revised export incentives, and credit squeeze for SMEs adversely impacted exports.

The Way Forward

Some important elements in the growth strategy relate to the following aspects:

 Higher productivity across sectors in value chain

 Huge investment required in spinning; weaving; knitting; dyeing & finishing; and garment confection sectors; 1/3 rd in dyeing & finishing sector.

 Work in progress – 7 mega textile parks, Mega Integrated Textile Region and Apparel Parks (MITRA) scheme.

 National Technical Textiles Mission (FY 21 to 24) to boost technical textile production & exports.

 Mink blankets (Panipat) made of acrylic, which is known for its exceptional softness, warmth and light weight.

 Appropriate tariff policies & greater market access needed.

 Rising consumer demand, higher exports. Good prospects; competition (Bangladesh, Vietnam, China).

 Survival-create new capacity, enhance existing capacity-technology upgradation, skill development.

 Enhanced productivity across value-chain from fibre, yarn, fabric and apparel & significant value addition

 Production in sync with global consumption patterns.

 Cotton demand growth depends on reforms-taxes discriminating against use of manmade fibres and regulations affecting scale, technology use, and export competitiveness

 Command premium prices; target niche products and markets; need to redesign products in higher value-added segments.

 Accent on Dyeing & Finishing sector- getting it right in the dyehouse

 Need to focus on regional and cluster subsidies, technology upgradation and skill development subsidies

 Future growth-a function of boosting chronically low cotton yields and improve cotton quality

 Growing domestic demand+ higher spending power in India & China (US $795 bn.) will exceed combined market-size of EU and USA i.e. US $775 bn, by 2025

 Growth of E-Commerce companies, viz., Amazon, Flipkart, Jabong and Myntra augurs well

 Innovative 'out of the box' measures- relaxation of tax compliance deadlines & rules.

 More comprehensive financial package than Atmanirbhar Bharat Abhiyan), factoring in labour & export-intensive sectors.

 Concessions to exporters against the Remission of Duties or Taxes on Export Products scheme for reimbursement of hitherto unpaid duties & taxes.

With the expansion of China +1 strategy, India is well poised to be an alternate manufacturing hub for the world due to abundance of raw materials, cheap labour, improved business environment and escalating manufacturing infrastructure. Given the large magnitude of the textile industry in India, there is considerable potential for growth and structural transformation.

We are optimistic about the textile industry which is likely to register good growth in the wake of China +1 strategy and upcoming textile parks and numerous initiatives, both taken and in pipeline. However, the industry needs to effectively address the risk factors, the distinctive peculiarities of the sector and the integration of the textile value chain for steady growth and consolidation of the Indian position in the comity of nations.

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