

Textiles industry topline up, but margins down significantly

Overall sales of top companies have increased marginally, while EBITDA margins have declined significantly for FY18, reveals the latest Wazir Advisors study.

The overall sales of top ten Indian textiles companies increased marginally in FY 2018, and earnings before interest, tax, depreciation and amortization (EBITDA) margins declined significantly. These findings are from the Wazir Textile Index (WTI) comprising cumulative financial performance of the top ten Indian textile companies along with update on market performance of the sector for FY18.

Figure 1: WTI Sales

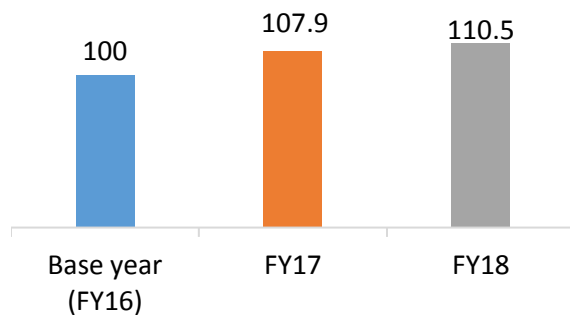
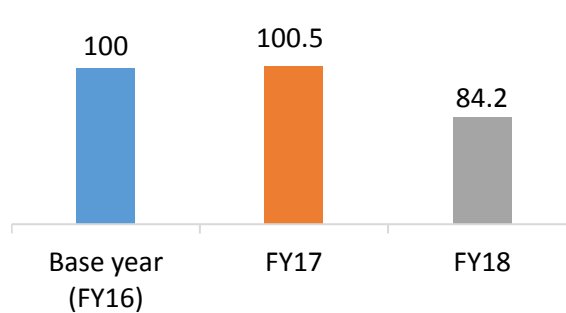
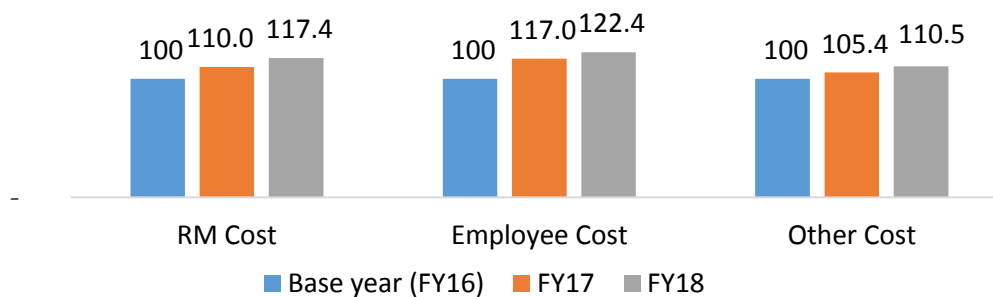


Figure 2: WTI EBITDA



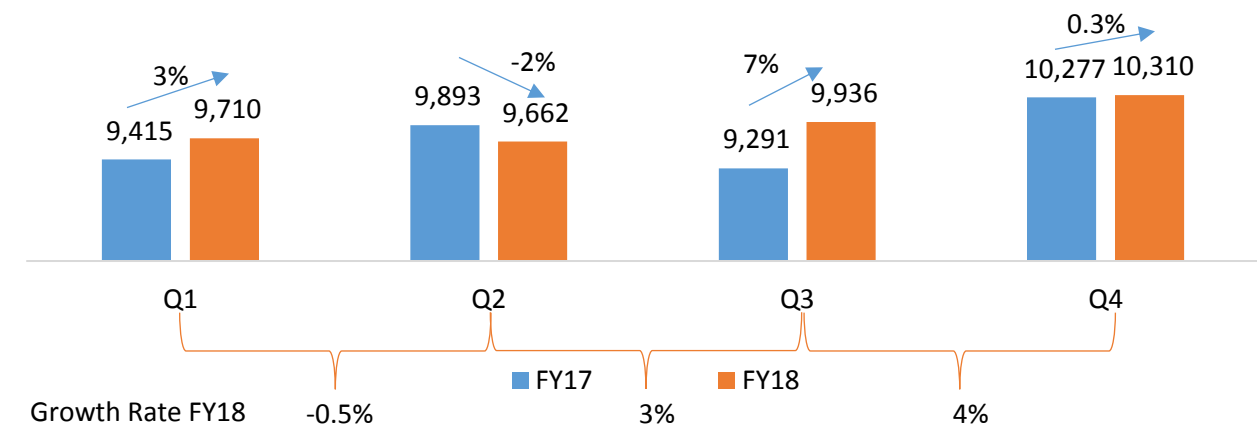
However, EBITDA declined drastically by 16 per cent in the same period. Consolidated WTI EBITDA stood at 84.2 in FY18 as compared to 100.5 in FY17. Following GST, even though overall sales grew in volume, demand constraints resulted in lower price realisation leading to reduced EBITDA margins. Also, there was an increase in raw material and employee costs impacting margins.

Figure 3: WTI Cost



However, the performance rebounded in Q4 and Q3 after a dip in Q2. Immediately after GST there was a dip in consolidated sales. However, in Q4 and Q3, the sales and EBITDA levels improved for the textiles industry. On a consolidated level, sales increased by 4 per cent in Q4 and Q3 FY18, and 3 per cent in Q3 vs Q2 FY18, after a dip of 0.5 per cent in Q2 vs Q1 FY18. Compared to previous year, sales increased by 0.3 per cent in Q4 FY18 vs Q4 FY17, and 7 per cent in Q3 FY18 vs Q3 FY17, after a decrease of 2 per cent in Q2 FY18 vs Q2 FY17.

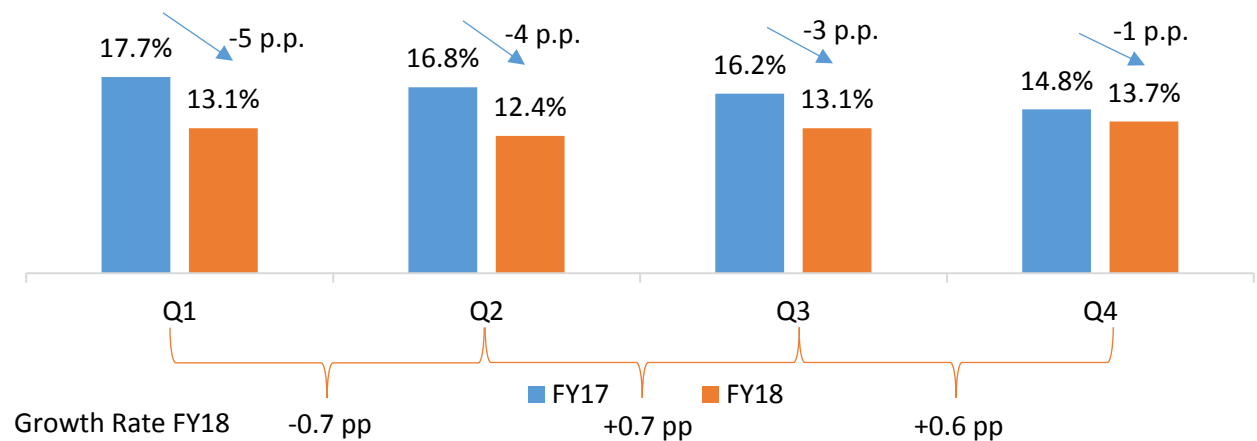
Figure 4: Quarterly Consolidated Sales - Rs. Cr



Source: Moneycontrol

Consolidated EBITDA margins declined consistently in Q1 FY18, Q2 FY18, Q3 FY18 and Q4 FY18 compared to previous year. The decline was less in Q3 FY18 at around -3 percentage points while the decline in Q4 FY18 was the least at around -1 percentage point. Within FY18, average EBITDA margins declined in Q2 to 12.4 per cent and then further rebounded in Q3 and Q4 to reach 13.7 per cent in Q4.

Figure 5: Quarterly Average EBITDA%

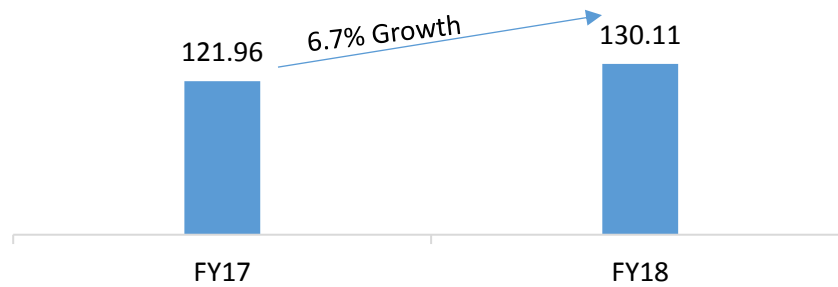


Source: Moneycontrol

Economy revives, but industrial production for textiles and apparel declines

India's real GDP has grown by 6.7 per cent in FY18 as compared to FY17. This growth is attributed to the high GDP growth of 7.7 per cent in Q4 FY18.

Figure 6: India's GDP at constant prices*(Rs. Lakh Cr.)

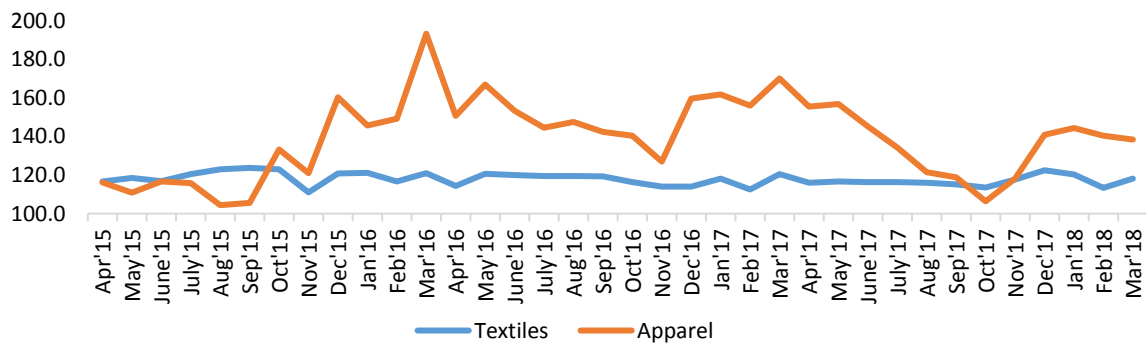


Source: Reserve Bank of India

*Base Year 2011-12

The average IIP (index of industrial production) for textiles has declined by 0.5 per cent while IIP for apparel has declined by 11 per cent in FY18 as compared to FY17. Decreased IIP may be attributed to lower market demand immediately after GST introduction, especially for apparel which saw significant decline in production after GST.

Figure 7: Index of Industrial Production (IIP*)

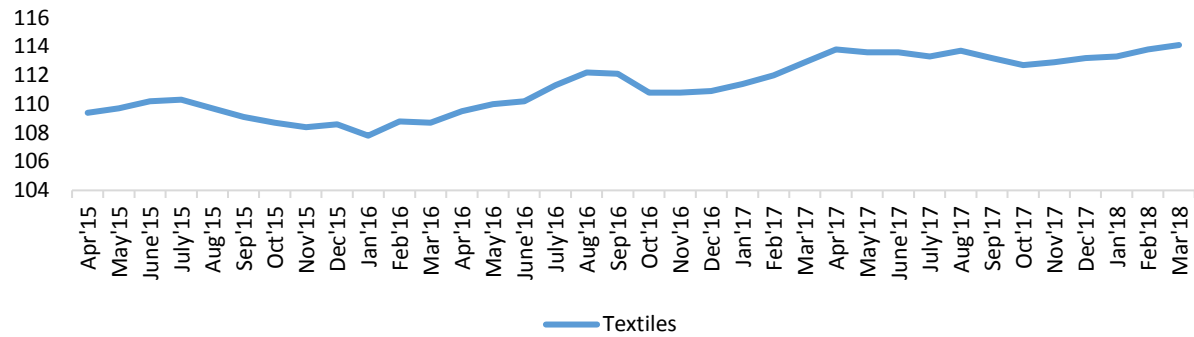


Source: Reserve Bank of India

*Base Year 2011-12

Due to increase in raw material prices, the average WPI for textiles has shown an increase of 2 per cent in FY18 as compared to FY17.

Figure 8: Wholesale Price Index (WPI*)



Source: Reserve Bank of India

*Base Year 2011-12

Indian exports of T&A products see marginal growth in FY18

Indian exports of T&A (textiles and apparel) products stood at \$37 billion in FY18, increasing by 0.6 per cent as compared to last year.

Table 1: India's Textile & Apparel Exports (US\$ mn)

Categories	H1	H2	% Change	H1	H2	% Change	FY17	FY18	% Change
	FY17	FY18		FY17	FY18				
Apparel	8,464	9,183	8%	8,924	7,533	-16%	17,388	16,716	-4%
Fabric	2,278	2,316	2%	2,243	2,268	1%	4,521	4,584	1%
Fibre	720	1,002	39%	1,781	1,790	1%	2,501	2,792	12%
Filament	530	580	9%	576	651	13%	1,106	1,231	11%
Home Textiles	2,536	2,659	5%	2,584	2,528	-2%	5,120	5,187	1%
Yarn	1,857	1,886	2%	2,274	2,383	5%	4,131	4,269	3%

Others	828	955	15%	881	968	10%	1,710	1,923	12%
Total	17,214	18,581	8%	19,263	18,122	-6%	36,477	36,703	0.6%

Source: DGCI&S

Exports of all categories grew in FY18 as compared to FY17 except apparel. India's apparel exports increased by 8 per cent y-o-y in H1 FY18. However, the same declined by 16 per cent in H2 FY18, resulting in an overall decline in apparel exports by 4 per cent in FY18. After GST issues like reduction in duty drawback, slow refund of input credit, etc, had significant impact in apparel exports reduction. Fibre exports grew significantly at a rate of 12 per cent in FY18 driven by cotton fibre exports growth of around 14 per cent. Fibre exports slowed down in H2 after a robust H1, while yarn exports showed a reverse trend. It is worth mentioning that India's overall exports grew 10 per cent y-o-y in FY18, compared to only 0.6 per cent for the T&A sector.

Table 2: India's Top Export Markets

Country	FY17	FY18
USA	21%	21%
UAE	13%	9%
UK	6%	6%
Bangladesh	6%	6%
Germany	5%	5%
Others	50%	53%

Source: DGCI&S

The US and UAE continue to be the two largest export markets with a cumulative share of around 30 per cent.

Imports of T&A products on a rise after GST

India imported textiles and apparel products worth \$7 billion in FY18, registering a growth of 16 per cent as compared to FY17.

Table 3: India's Textile & Apparel Imports (US\$ mn)

Categories	H1 FY17	H2 FY18	% Chang e	H1 FY17	H2 FY18	% Chang e	FY17	FY18	% Chang e
Apparel	308	347	13%	287	425	48%	595	773	30%
Fabric	946	1,147	21%	888	1,189	34%	1,834	2,336	27%
Fibre	1,111	1,254	13%	809	696	-14%	1,920	1,950	2%
Filament	281	314	12%	272	324	19%	553	639	16%
Home Textiles	139	144	4%	122	151	24%	260	295	13%
Yarn	179	205	15%	153	228	49%	332	433	31%
Others	272	283	4%	279	324	16%	551	607	10%
Total	3,236	3,695	14%	2,810	3,336	19%	6,045	7,032	16%

Source: DGCIS

Import of all categories increased in FY18. Yarn imports increased the maximum in FY18 (31 per cent) as compared to other categories. Increase in imports of spun yarn led to this increase in yarn imports in FY18. Apparel and fabric imports also grew significantly by 30 per cent and 27 per cent in FY18, especially after GST at 48 per cent and 34 per cent respectively. One of the reasons for this was the reduced effective import duty with the removal of CVD and credit available for IGST.

Table 4: India's Top Import Markets

Country	FY17	FY18
China	38%	41%
USA	7%	9%
Bangladesh	8%	6%
Australia	7%	5%
Vietnam	3%	4%
Others	37%	36%

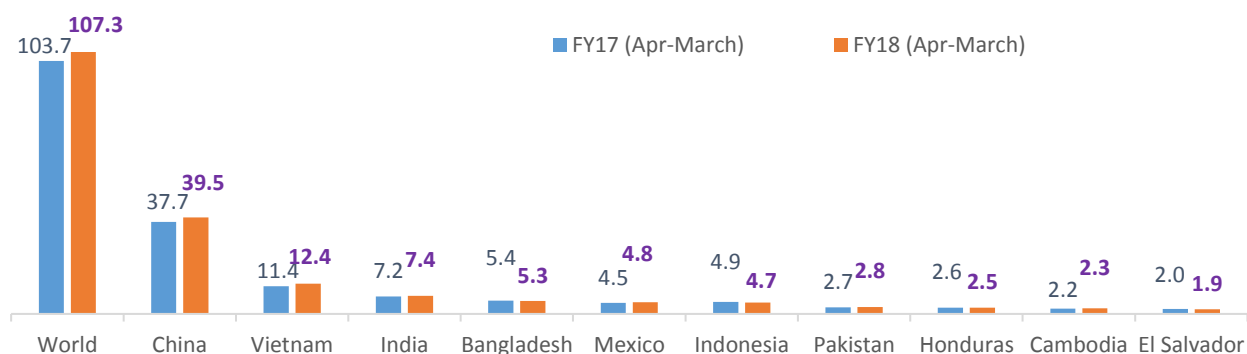
Source: DGCI&S

China continued to be the largest import partner for India. Import share of the US increased significantly from 7 per cent in FY17 to 9 per cent in FY18, primarily due to increase in cotton imports.

T&A imports of US and EU increased in FY18

US imports of textiles and apparel increased by 4 per cent in FY18, while EU imports increased by 8 per cent between April 2017 and February 2018. Among the top import countries, Vietnam showed high growth of 8 per cent in US imports, while China and India increased by 5 per cent and 2 per cent respectively. Interestingly US imports from Bangladesh declined by 3 per cent during the period.

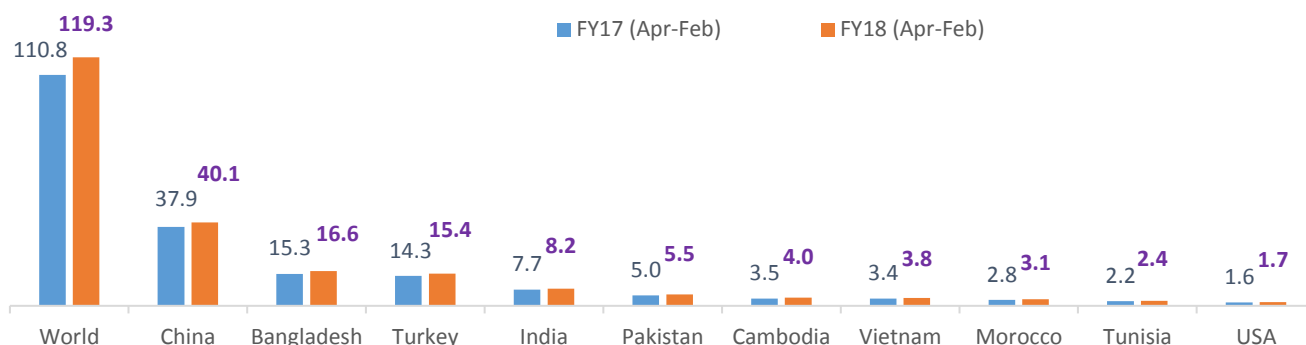
Figure 9: Overall Imports and Top Import Countries of USA (US\$ Bn)



Source: OTEXA

Cambodia showed the highest growth of 15 per cent in imports of EU. Other top countries to EU included Pakistan (11 per cent), Vietnam (10 per cent), Morocco (10 per cent) and Bangladesh (8 per cent). India and China both showed growth of 6 per cent in EU imports.

Figure 10: Overall Imports and Top Import Countries of EU-28* (US\$ Bn)



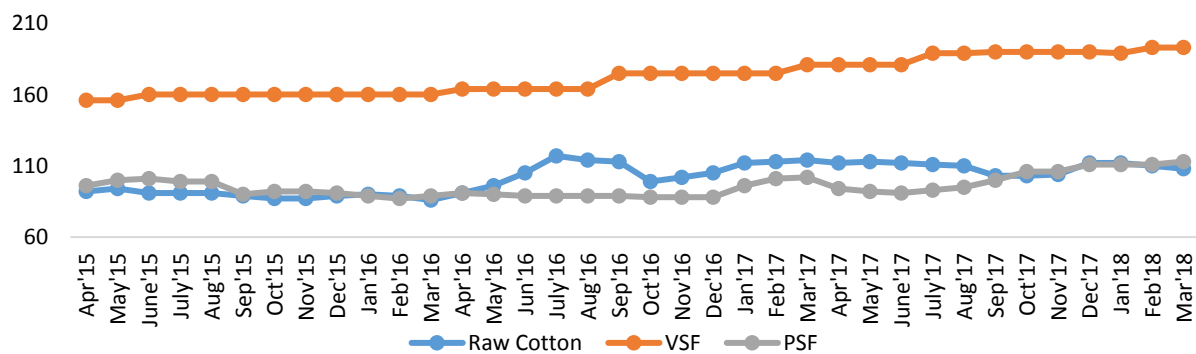
Source: EUROSTAT

*EU-28 data excludes intra EU trade

Despite fluctuations, average raw material prices increase

Overall, there was an increase in raw material prices in FY18 compared to FY17. On an average basis, raw cotton, viscose staple fibre and polyester staple fibre prices increased by 2 per cent, 10 per cent and 11 per cent respectively in FY18.

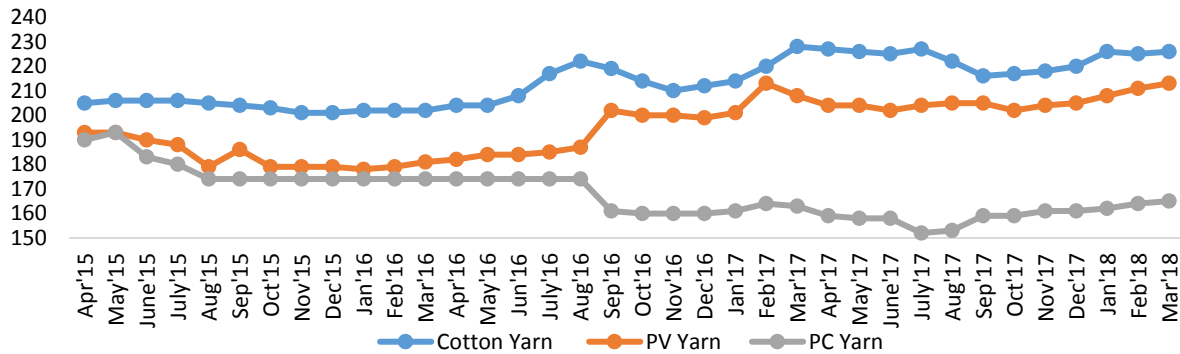
Figure 11: Fibre Prices (Rs. /kg)



Source: Ministry of Textiles

Similarly, there was an increase in cotton yarn and polyester viscose blended yarn average prices growing at a rate of 4 per cent and 5 per cent respectively in FY18. However, polyester cotton blended yarn registered a decline of 4 per cent in FY18 as compared to FY17.

Figure 12: Yarn Prices (Rs. /kg)



Source: Ministry of Textiles

Conclusion

Overall, the Indian textiles and apparel industry struggled in terms of profitability in FY18 due to the lingering effect of GST. However, the overall performance of the industry rebounded in the last quarter of FY18 which is promising for the future. The decline in EBITDA margins for the top ten textiles companies was the least in Q4 FY18 as compared to the previous quarters. T&A exports grew at a slow rate with a decline in apparel exports in FY18. Post-GST issues like reduction in duty drawback, slow refund of input credit and increasing competition from other low-cost nations had a significant impact in apparel exports reduction. Also, India’s T&A imports are on a rising trend especially after GST. One of the reasons was the reduced effective import duty with removal of CVD and credit available for IGST. This needs to be addressed immediately to restrict further impact on the domestic industry.