

Indian Textiles: Opportunities and Constraints



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India is the 11th largest economy in the world. Although this may be exciting news, reality is that there are about 6 crores and 52 lakh families in poverty. India's per capita GDP is 3 to 4 times less than that of China. The Indian economy is dependent on agriculture and manufacturing. Within manufacturing textiles and automobiles play an important role in giving jobs to the skilled, semi-skilled and rural people. There are both opportunities and constraints. Important constraints are: 1) Raw material; 2) Power and 3) Skilled workforce. The emerging opportunity within the textile sector lies in growing the fragmented and nascent technical textiles sector.

Among the constraints, cotton is of paramount importance. The western hemisphere has not started planting cotton for the 2011 season and the world is facing severe shortage of the white fluff. A good discussion on the cotton scenario will be of help to the Indian textile industry.

Cotton Scenario: Revised Indian Crop Estimate for 2010-11 Released

On Saturday, February 26th, India's Cotton Advisory Board (CAB) met and produced the revised estimate for 2010-11 cotton season.

According to the latest estimate by CAB, India's cotton production for 2010-11 (October 2010- September 2011) is expected to be 31.2 million bales (170 kg each). This is 1.7 million bales less than CAB's earlier estimate on January 6th. In January, CAB estimated the 2010-11 production to be 32.9 million bales (170 kg each).



India is now expected to plant 11.16 million hectares of cotton this season and the all India average yield is expected to be 475.23 kg per hectare.

The Central Zone comprising of the states of Gujarat, Maharashtra and Madhya Pradesh is expected to produce 20.1 million bales.

The Southern Zone comprising of the states of Andhra Pradesh, Karnataka and Tamil Nadu is expected to produce 6.8 million bales.

The three largest cotton producing states are Gujarat, Maharashtra and Andhra Pradesh. Gujarat is estimated to produce 10.2 million bales, Maharashtra is estimated to produce 8.2 million bales and Andhra Pradesh is estimated to produce 5.3 million bales.

The cotton area in Maharashtra is estimated to be 3.97 million hectares and Gujarat is estimated at 2.63 million hectares. The state of Gujarat is expected to have an average yield of 658.56 kg/ hectare. While the revised output figure by India's CAB is estimated at 31.2 million bales, Coimbatore based The Southern Indian Mills' Association has estimated the crop to be 30.9 million bales which is less than the revised CAB's estimate.

The total consumption for 2010-11 season will be 27.5 million bales. The opening cotton stock this year (October 2010- September 2011) is provisionally pegged at 4.05 million bales.

As of today, India's allowable cotton export for this season stands at 5.5 million bales (170 kg each).

The Cotton Association of India has estimated the production to be 34.75 million bales of 170 kg each, which is higher than the CAB's latest estimate. The supply according to CAI will be 40.9 million bales and the demand will be 26.6 million bales which will leave a surplus of 14.3 million bales.

Indian Spinning Industry Body Estimates Lower Cotton Production

Coimbatore, India based The Southern India Mills' Association (SIMA) with over 400 members has recently estimated that the 2010-11 season crop will be less by 2 million bales (170 kg each). According to the recent estimate by SIMA, India's cotton crop will be 30.9 million bales which is 2 million less than the recent estimate by the Cotton Advisory Board (CAB) of India.

The Cotton Advisory Board on January 6th estimated the cotton production for the 2010-11 season to be 32.9 million bales (170 kg each) and the total domestic consumption to be 27.5 million bales.

Mr. J. Thulasidharan, Chairman of SIMA in a recent press statement mentioned that with the current cotton production scenario, Indian mills will face supply shortfall from this July, which will lead sharp increase in yarn prices. He has requested the Ministry of Textiles to take up the cotton export matter with the Ministries of Commerce and Agriculture. SIMA wants the cotton export ceiling to remain 5.5 million bales (170 kg each).

Most recently, the Textile Minister of India, Mr. Dayanidhi Maran, while laying the foundation stone for a mega weaving complex in the Southern State of Tamilnadu has emphasized that the cotton export limit should be maintained at 5.5 million bales, which should bring down the cotton prices in the domestic market.

In speaking to this scribe on Tuesday, January 25th in Mumbai, India, Textile Commissioner, Mr. Anil B. Joshi said that the revision of cotton export limit can only be decided by Group of Ministers which involves concerned ministries of Agriculture, Commerce and Textiles. There is no word as to when this group will meet to take up the cotton export situation and so the export limit stands at 5.5 million bales.

Indian Cotton Export and the Indian Textile Industry



While addressing a gathering of about 400, during the inauguration of the 66th annual conference of Textile Association (India) in Bangalore on January 28th, Mr. M. Prabhakar Rao, Chairman of NSL Group, which is the home to India's largest seed company, Nuziveedu Seeds Pvt. Ltd., expressed the value loss to Indian textile industry by exporting raw cotton. NSL Group is a conglomerate with interests in hybrid seeds, cotton, textiles, power and infrastructure. He briefed the audience that cotton when exported in raw form loses about 500% of its value as

compared to exporting finished garments. Mr. Prabhakar Rao in his personal capacity as the Chairman of NSL Textiles expressed concern over the timing and the export of raw cotton and called for increasing cotton yields in India. If the Indian yield levels-off with that of the world's best level, India can double its production from the current level of 5.5 million metric tons (MT) to 11 million MT.

Speaking to this scribe in January, Mr. Rao said India's production can double in four years provided the government policy is supportive. By enhancing the yield, some 50 hectares can be freed from cotton to other crops. He made a clarion call for Better Cotton Initiative, mechanical harvesting and encouragement for contract cotton farming. He wanted the Indian cotton sector to have a suitable hedging mechanism to safe guard the interests of farmers and the textile industry to be in a better position by having a good buffer stock. According to Mr. Rao, the Indian textile industry is suffering due to cotton exports and its inappropriate timing. The Indian textile industry is blaming the price hike on cotton exports. Just in 3 weeks time since the 1st week of January, cotton price in India has soared over 20%.

Even if India doubles its cotton capacity, the growing textile industry in India will require an addition 10 million MT of fibers in this decade in addition to its current consumption of 8 million MT.

India's Cotton Consumption is Expected to Rise in this Decade

India's textile industry will need additional 10 million metric tons of fibers in order to reach a value of US\$ 220 billion by 2020. According to Mr. Ashish Dhir, Associate Vice-President of Technopak Advisors Pvt. Ltd., New Delhi, India's textile industry which is valued at US \$70 billion in 2009 is estimated to reach US\$ 220 billion by the end of this decade. By 2020, the domestic market will be US\$ 140 billion and the export market will be worth at US\$ 80 billion.

At the present level, India's textile industry consumes 8 million metric tons of fibers. Of the additional 10 million tons of the fiber requirement, only three million tons can be contributed by cotton, according to Ashish Dhir. Mr. Dhir told this scribe on the sidelines of the 66th annual conference of the Textile Association (India) in Bangalore that due to land requirement for food crops, acreage enhancement for cotton production will be limited. Dr. Keshav Raj Kranti, Director of the Central Research for Cotton Research, Nagpur, India told this author in Bangalore that the cotton acreage increase will be limited and the total acreage can reach a maximum level of 11.5 million hectares only. Current cotton acreage has been 11 million hectares. He insisted that yield enhancement will be the way to increase the production. Mr. Badami, Vice-President, Polyester, Reliance Industries, Ltd., in his address at conference highlighted that the growth in demand of fibers in recent past in India has been 6.5% whereas, the world-wide growth in fiber demand has been only 2.4%.

India's current installed ring spinning spindle capacity is 43 million and this is expected to be increased by 2 to 3 million spindles in the next 2-3 years. Increase and replacement of old spindles which may touch 3 million soon will lead to more cotton consumption as well as other fibers by the domestic spinning industry. Recently, Coimbatore based The South Indian Mills' Association has estimated lower production for the 2010-11 season, which will be 30.9 million bales (170 kg each). Currently, the cotton price is shooting up due to the bulk purchases by exporters and the excessive need by the South Indian mills. On January 30th, spot price for Sankar-6 has been Rupees 51,000 per candy (356 kg). The

price on January 7th was Rupees 42,000 per candy. In 3 weeks time, the price has shot up by over 20%.

According to an executive of Maxwell Industries, the manufacturer of the popular VIP brand cotton undergarments, currently it is difficult to get bulk quantity of bales due to supply squeeze and according to him, in few months the Indian spinning industry may face acute cotton short supply. He expressed a concern that India may need to import cotton and cotton prices can further sky rocket if the current situation persists.

Bt Cotton Seeds will be in Short Supply in India

India's cotton production increases in recent years have been due to the use of Bt cotton and hybrid seeds. There is a danger to this enhanced output due to predicted short supply of Bt cotton seeds.

Dr. Shanthu Shantharam, Executive Director of the Association of Biotechnology Led Enterprises-Agricultural Group (ABLE-AG) spoke to this scribe on February 16th from New Delhi and advised that there is a predicted shortfall of 50 lakh (5 million) packets of Bt cotton seeds (450 gram each) for the 2011-12 planting season. He commented that the requirement for the next season will be around 4 crores (40 million) packets and it is estimated that seed companies can produce about 3.5 crores (35 million) packets.

Dr. Shantharam said there are several issues and complexities with regard to short supply of Bt cotton seeds. Among those, he emphasized the fact that seed companies are not able to supply seeds to growers at subsidized rate when cost of production is going up. Estimates are such that the seed production cost has gone up by 30-40% whereas the seed prices have not kept in pace with the production cost increases.

Cotton Jumps over the Roof

Market rated cotton to be over \$2 a pound. Cotton settled at \$2.04 a pound for the March '11 shipment at the InterContinental Exchange (ICE New York Futures) on February 17th reaching the daily limit of 7 cents. This sets a new record for cotton at the exchange. May '11 contract settled at \$2.01 a pound. March contract price has climbed by 40% in a month.

Mr. Grady Martin, Director of Sales at the Lubbock, TX, USA based Plains Cotton Cooperative Association-the largest cotton marketing cooperative in the United States with 20,000 members in a telephone conversation with this reporter attributed the high market price to the short supply in the world.

Although, cotton has hit a new record, such a high price is not realized by the farmers. In communicating with this scribe on the record cotton price, Mr. Roger Haldenby, Vice President-Operations of the Lubbock, USA based, Plains Cotton Growers, Inc. commented, "*I feel we must be clear that \$2 a pound is not what our farmers have received for their cotton. It is what the market says is the value of the very limited world inventory at this time.*" On the supply of cotton, Haldenby remarked, "*world inventory must soon start to be replenished by southern hemisphere harvest before we see supply problems easing. The northern hemisphere 2011 crop has not yet even been planted. I believe it will be into the 2011-12 marketing year before we see demand being satisfied and prices getting to a level that is high enough for producers on the supply side, and low enough for our customer spinning mills around the world.*" Plains Cotton Growers represents cotton growers in the 41 county area on the High Plains of Texas, USA. This region produced 30% of total U.S cotton crop last year.

While the futures market for March delivery crossed \$2 mark, spot price for Sankar-6 (28-29 mm staple) in Gujarat, India was in the range Rupees 57,500 to 57,900 per candy (356 kg).

Where are Opportunities?

Indian textile industry needs diversification and value-addition across the value-chain. This can be in the enhancement of productivity, captive consumption in terms of input material, power, etc., power generation and saving. An important sector which is getting much needed attention is technical textiles. Within this sector, it is important to grow the converting sector. Converting sector is the taylor shops in technical textiles, which can develop products that are closer to the consumers. Consumer relevant technical sector should be developed in India.

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The views presented in article are of the author; based on the happenings in the industry