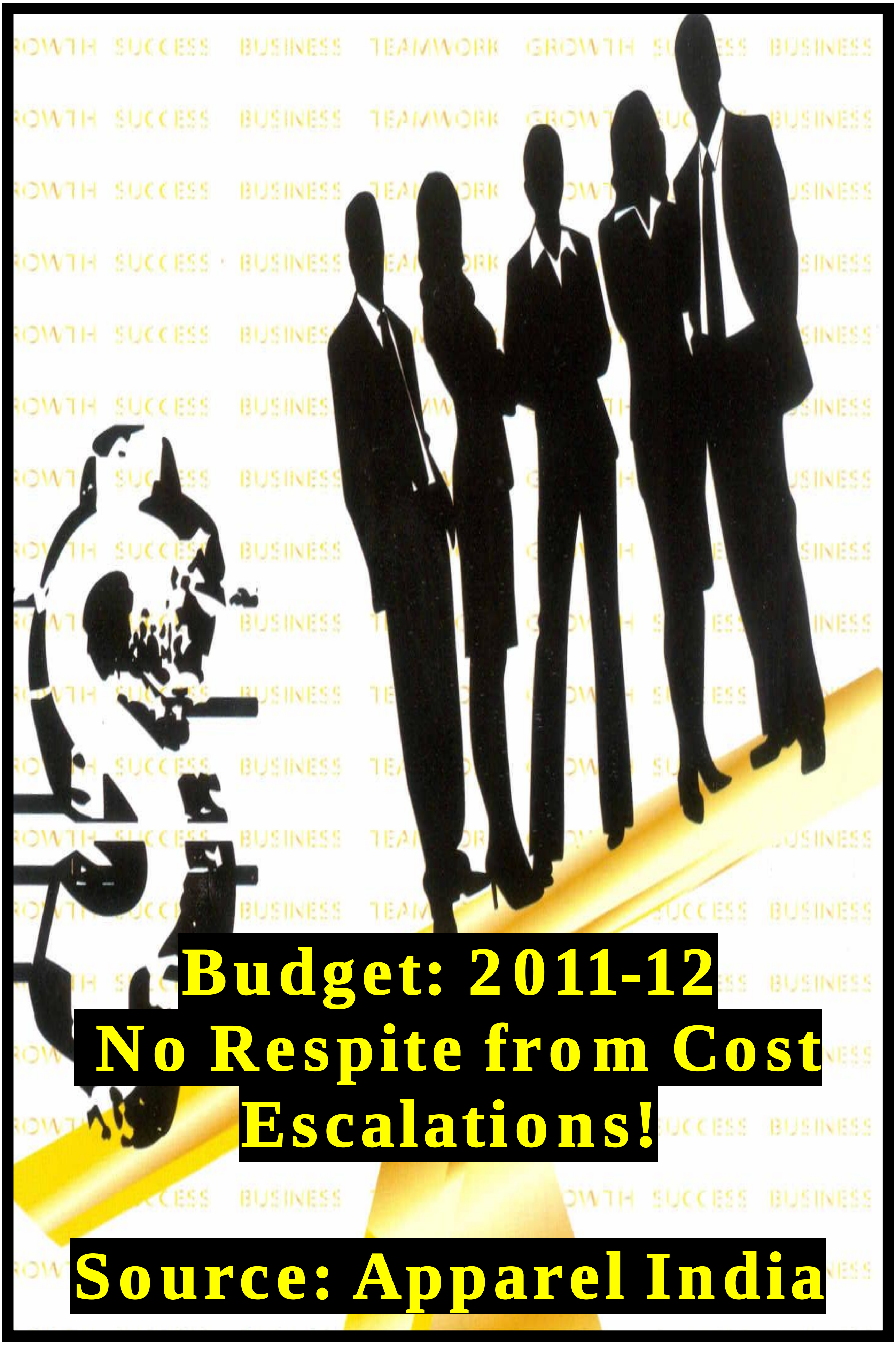

Budget: 2011-12

No Respite from Cost Escalations!

Source: Apparel India

Budget: 2011-12 No Respite from Cost Escalations!

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"Government's view on the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it" - Ronald Reagan, the 40th President of the United States.

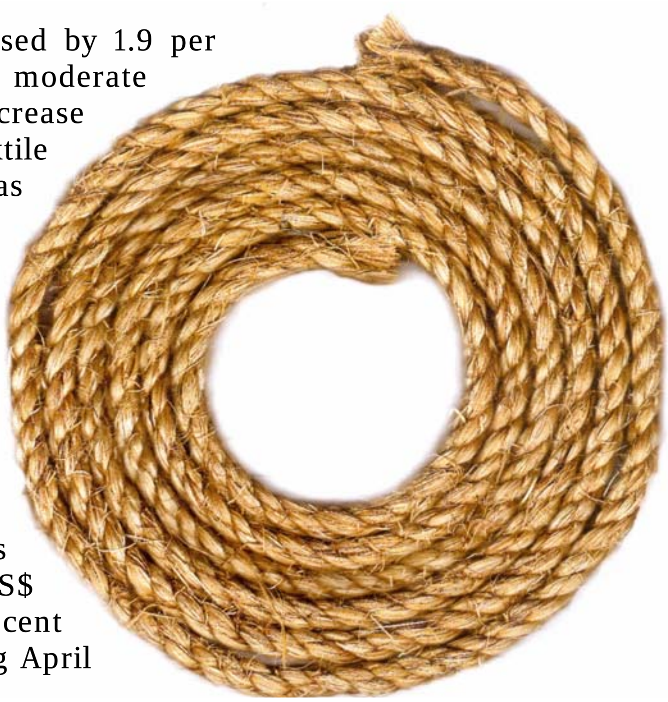
With the recently announced budget, the apparel industry is still in a state of mirage. Yet again, the budget had little to offer for the sector. Without any further ado, read on what it has put forward for this financial year. Don't forget to take a glimpse of the economic survey which ideally goes hand in hand with the budget.

Overview of the Textile industry

The economic survey 2010-11, gives a detailed analysis of the economic situation of the country, over the past 12 months. The Gross Domestic Product (GDP) of India is estimated to have grown at 8.6 per cent in 2010-11 in real terms. Growth in the industrial sector was buoyant during the first two quarters (April-June, July-September) of the current financial year and is as follows:-

- Cotton textiles production grew by 10.1 per cent during April-November 2010-11 as compared to 3.6 per cent during April-November 2009-10.
- Jute textiles production has also recovered and grew by 6.8 per cent as compared to a decline of 16.7 per cent during April-November 2009-10.
- Textile products grew by 5.7 per cent during April-November 2010-11 as compared to 3.9 per cent during the corresponding months of the previous year.
- In the wool, silk and man-made fibres segment of textiles, growth has however, dipped to a mere 0.1 per cent during April-November 2010, as compared to 13 per cent during April-November 2009-10.

The overall production of textile fabrics increased by 1.9 per cent, during April-October 2010-11. This is a moderate performance when compared with the robust increase of 8.8 per cent during 2009-10. The decline in textile fabrics/cloth during the current financial year has been on account of comparatively lower growth rates in the production of mill, power loom and hosiery segments.



During 2009, in clothing exports, China had a share of 30.7 per cent as against India's share of 3.6 per cent. India's textile exports grew by 6.31 per cent during 2009-10 as against a decline of 5.0 per cent during 2008-09. As per the latest available data for April-September 2010, exports of textiles and clothing were in the order of US$ 11.27 billion, thus recording a growth of 11.47 per cent vis-à-vis exports worth US$ 10.11 billion, during April to September 2009-10.

Glimpses of Budget 2011-12

- **Prices of branded apparel to rise**

Another dampener to the industry after the growing cotton prices, according to the Union Budget, for this financial year, would be the rising prices of the branded apparel sector, which will have to cough up mandatory excise duty of 10 per cent.

Excise duty on branded apparel was earlier voluntary. This means that apparel makers, who did not opt to pay the duty, also could not avail credit or offset the tax paid by their suppliers for inputs. This optional excise duty was 4 per cent for cotton and 10 per cent for other goods.

But now, the 10 per cent excise duty has become universally applicable across all branded clothing. This has been done, with the view of bringing the branded readymade garments sector under excise, to meet the impending goods and service tax regime, where exemptions are not favoured.

- **The MAT rate has been increased from 18 per cent to 18.5 per cent**

The increase in MAT in the budget definitely needed to have been reviewed, as the textiles industry, which is the largest employment provider and one of the largest foreign exchange earner sectors, has clearly been overlooked in this case.

- **5 per cent excise duty on automatic looms and projectile looms** would add an avoidable duty burden and will impact fabric manufacturers, including the decentralized power looms.

A ray of light for the industry

- The Finance Minister has proposed to provide ₹3,000 crore to NABARD, which will benefit 15,000 cooperative societies and about 3 lakh handloom weavers.
- In favour of exporters, there has been a proposal to introduce scheme for refund of taxes, paid on services used for export of goods.
- Besides this, in order to speed up the clearance of the cargo by customs authorities it is proposed to introduce self-assessment in customs. Under this, importers and exporters will themselves assess their duty liabilities while filing their declarations in the EDI system. The department will verify such assessments on a selective system driven basis.
- Surcharge on domestic companies reduced to 5 per cent from 7.5 per cent.
- Reduction of excise duty on 40 specified textile machinery has been incorporated, but the impact of this would be limited since most of these machines are not manufactured in India.
- Reduction in custom duty for textile products:

Basic customs duty is being reduced on raw silk (not thrown) of all grades from 30 per cent to 5 per cent.

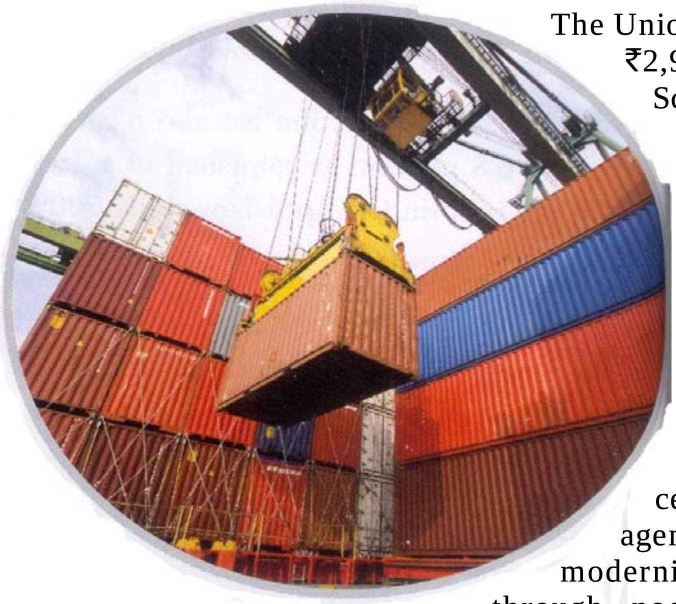
Cotton waste is being fully exempted from basic customs duty.

Basic customs duty on Poly Tetra Methylene Ether Glycol (PTMEG) and Diphenylmethane 4, 4diisocyanate (MDI) is being reduced from 7.5 per cent to 5 per cent, subject to actual user condition.

Basic customs duty is being reduced from:

1. 5 per cent to 2.5 per cent on Acrylonitrile
2. 7.5 per cent to 5 per cent on Sodium Polyacrylate.
3. 10 per cent to 7.5 per cent on Caprolactum
4. 10 per cent to 7.5 per cent on Nylon chips, fibre and yarn
5. 5 per cent to 2.5 per cent on rayon grade wood pulp

- The sector upbeat with 2,980 crore under TUFS



The Union Budget for 2011-12 has provided an allocation of ₹2,980 crore for the Technology Upgradation Fund Scheme (TUFS), which is expected to boost the country's biggest man-made fiber industry in the city. The domestic textile industry had been pressing for the continuation of the scheme, citing the need to constantly modernise plant and machinery to compete with China, Vietnam and Bangladesh.

The allocation for TUFS in 2011-12 has increased by ₹713 crore as compared to the previous year. The scheme provides for reimbursement of 5 per cent, out of interest actually charged by the lending agencies, for facilitating investment in the modernisation of textiles and jute units and is operated through nodal agencies, such as IDBI, small industries, Development Bank of India, IFCI and nationalised banks.

This budget clearly amplifies the government's intention to rationalise taxes and move towards the Goods and Service Tax (GST). GST would subsume most of the central and state taxes like excise and sales tax, making rules easier for the industry and other tax payers.

At the central level, beginning has been made by converging widely varying tax rates and extending input tax credit to convert excise duties into a Central Value Added Tax (CENVAT)

- Service Tax
- Alteration/expansion in the scope of existing services. It will cover services like:

Life Insurance Service: The scope of this service is proposed to be expanded to cover all services, including in relation to management of investments.

Business support service: The scope of the service is being expanded to include operational or administrative assistance of any kind.

- Exemption in Services tax:

The service tax applicable in respect of Transport of passengers by air service is being revised as follows:

a) Domestic (economy): from ₹100 to ₹150
b) International (economy): from ₹500 to ₹750
c) Domestic (other than economy): standard rate of 10%

Exemption is being given to services rendered to an exhibitor, participating in an exhibition held outside India.

- Small scale sector

Finance minister has announced in his budget speech, that individual and sole proprietor assesses, with a turnover up to ₹60 lakhs, shall not be subject to audit.

Interest rate for all assesses (including firms and corporate) up to a turnover of ₹60 lakhs shall be 3 per cent less than the prescribed rate.

Reactions from the Industry

Mr. Premal Udani, Chairman of Apparel Export Promotion Council said, "The garments industry requires the flexibility in excise duty to improve value addition capabilities and in-time deliveries to global markets. Otherwise, this will severely impact industries with higher requirements, of outsourced processing and other services like the knitwear industries, embroidered or other value added garments."

He said, "The optional scheme for payment of excise duty on readymade garments and textile made-ups, which bear a brand name or are sold under a brand name, has been removed in the Budget proposals, with a 10 per cent excise duty imported on these goods without CENVAT credit facility."

With this new regime, the garment exporting units in Tamil Nadu and West Bengal will be badly hit. Tamil Nadu, as a whole, provides around one fourth of India’s garment exports. Given the complex value chain, it is requested that garment export industry should be provided with optional excise duty regime as given earlier to protect large number of units.

Mr. Udani added further, "The industry is thankful for the reduction in custom duty on technical yarn and other inputs announced in the budget."

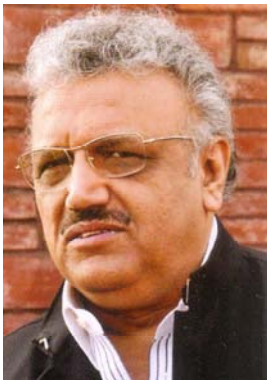
Mr. Shishir Jaipuria, Chairman, Confederation of Indian Textile Industry CITI stated that the central Budget presented by Finance Minister, is a mixed bag for textile and clothing industry.

"In continuation of the optional scheme for excise duty, in the case of yarn and fabric, is a welcome feature of the Budget. Allocation of ₹3000 crore to NABARD in phases for handloom cooperative societies will also be helpful to a large number of handloom weavers once the scheme is finalised and announced by the Ministry of Textiles," he said.

He added that the reduction of customs duty, from 7.5 per cent to 5 per cent on certain textile intermediates and inputs for technical textiles, will be of some help to, the nascent and the potential technical textiles.

He also pointed out, that most of the branded readymade garment production, in India is outside the 551 segment and therefore SSI exemption will not be of much help. Also, the 10 per cent excise duty coupled with the SSI exemption, has the potential to further fragment, the readymade garments and made ups industries.

Mr. Rakesh Vaid, President, GEA



Expressing disappointment for lack of any special provision for the garment sector in budget proposals for 2011-12, Mr. Rakesh Vaid, President, Garments Exporters Association regretted that the Budget has proposed to convert the optional levy, into a mandatory levy, at a unified rate of 10 per cent for readymade garments and made-ups of textiles, which were earlier under an optional excise duty regime, which would adversely affect the garment sector of the textile industry. Although, CENVAT credit of inputs and services would be available the garment factories will now have to register themselves with central excise, increasing the transaction and administrative costs. It would also lead to unnecessary harassment and delays in handling time bound export shipments, said Mr. Vaid .

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