Indian Textile Industry Poised For New Heights

Source: Textile Review

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By: Dr. K. Selvaraju

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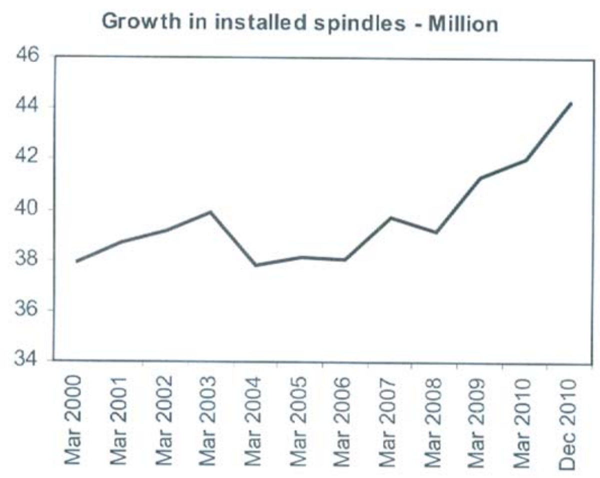
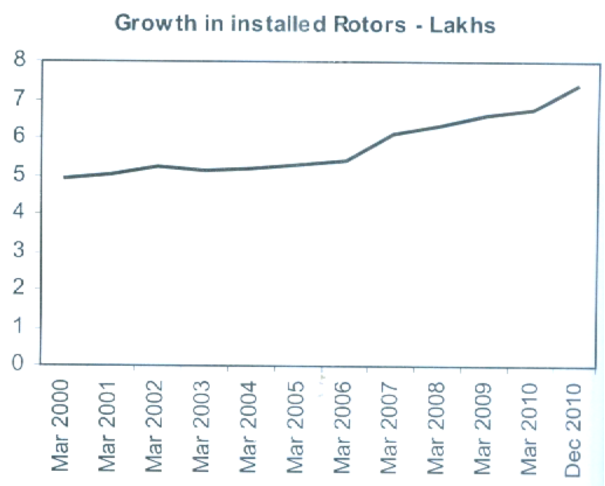
Indian textile industry is on a continuous growth path in the last decade. The industry is sure to have its leading position in the global textile trade in the near future which is backed by strong domestic multifibre base and domestic consumption as the country is the second largest populous country in the world. Though the industry is passing through one of the most challenging times on all fronts right from raw material, it would expand its trade in the near future.

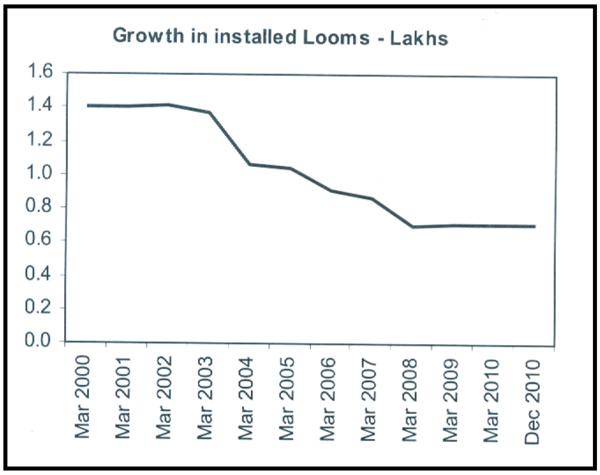
The number of spinning mill in the country under non-SSI sector and SSI sector has gone upto to 3151 as at the end of December 2010 from 2491 existed at the end of March 2000. As a result the yarn spinning capacity of the country under these two segments stood at 44.33 million spindles and 7.40 lakh rotors registering an increase of about 17 per cent and 51 per cent respectively. The following chart shows the capacity building in yarn production capacity in non-SSI and SSI sectors.





Cloth Production Capacity

Mill Sector



The number of weaving mills has gone down to 368 from 488 during the same period and the number of installed looms has come down 71,130 loom from the level of 140,460 loom, registering a decline of about 50%. Mainly due to the encouragement provided for the development for decentralized power loom segment.

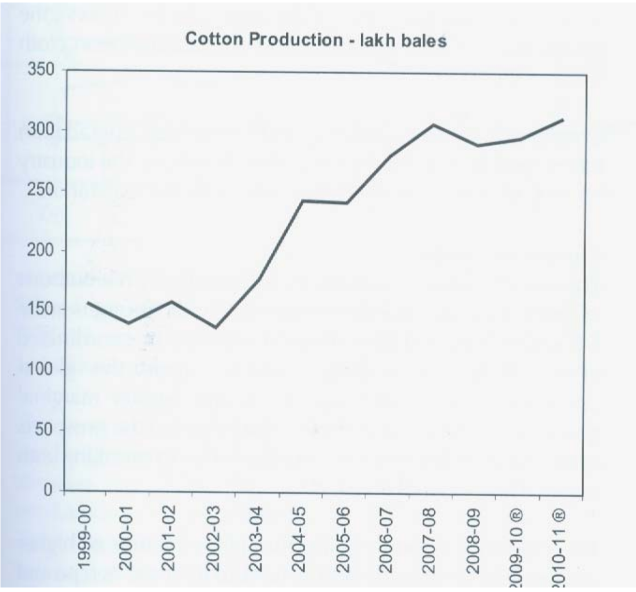
Power looms

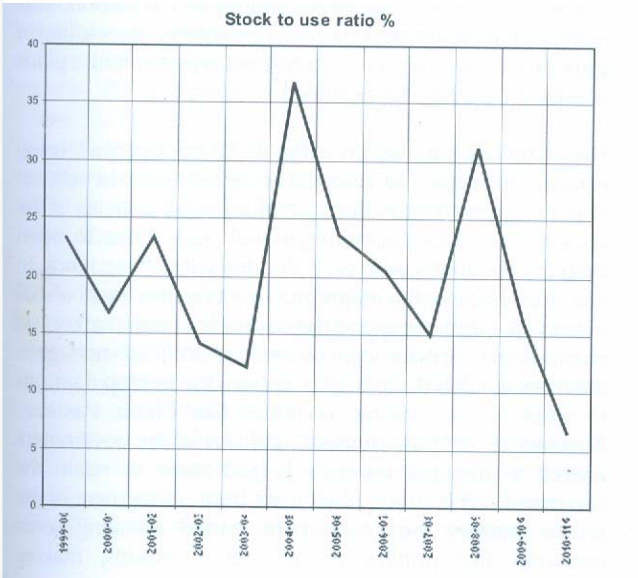
The cloth production capacity of the power loom in the decentralized sector has gone up to

5.15 lakh units at the end of January 2011 from 3.73 lakh units at the end of December 2000 and the number of installed looms has gone up to 22.83 lakh looms from 16.55 lakhs during the same period registering an increase of about 38 per cent. However, the average number looms per unit remains unchanged at 4.43 over a decade.

Hand Looms

As per the latest third survey of hand loom households, the number of hand looms in the country has come down to 23.77 lakh handlooms in 2009-10 compared to 32.96 lakh handlooms and 38.90 lakh hand looms reported the earlier surveys done in 1995-96 and 1987-99 respectively.





However, we do not have reliable figure of the knitting sectors as it is widely scattered and no system of reporting is in practice.

Cotton

Indian textile industry predominantly uses the natural fibre cotton. The country has emerged as the second largest producer of cotton. Cotton production in the country has increased from 156 lakh bales in 1999-2000 to 312 lakh bales in 2010-11, though significant increase is there in the quantitative terms, the per capita production is just about 490 kgs per hectare, while the world average yield is 754 kgs per hectare and the highest per capita yield has been reported in Australia with about 1,763 kgs per hectare. Though the country emerged as the second largest producer of cotton in the world during 2008-09 and retained the position till date, it is not able to maintain the stock-to-use ration better than the world average of around 35 t0 40 per cent to ensure raw material security to the domestic industry. The following charts show the increase in cotton production and also the stock-to-use ratio.

Though the country emerged as the second largest producer of cotton in the world, the domestic spinning industry could not take any advantage of it due to fallacies in government policies.

Technology upgradation

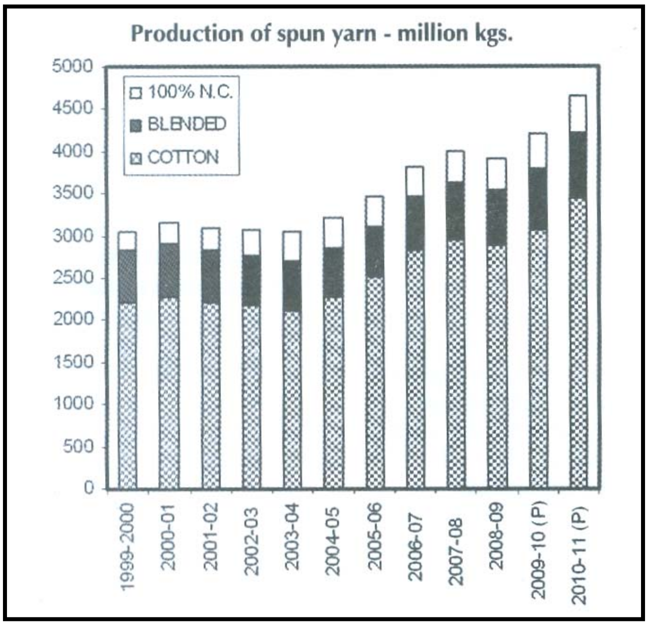
Building up of capacity expansion and technology upgradation has been encouraged by the launching of the Technology Upgradation Fund Scheme (TUFS) in April 1999, which subsequently extended up to March 31,2007 in the year 2004, further to March 2012 in 2008 taking into account the growth prospects of the industry.

Progress of TUFS – Crore Rs

Year	Project Cost	Subsidy Disbursed
1999-2000	5074	746
2000-2001	4380	1863
2001-2002	1320	804
2002-2003	1438	932
2003-2004	3289	856
2004-2005	7349	1757
2005-2006	15032	3962
2006-2007	66233	26605
2007-2008	19917	6854
2008-2009	55707	21826
2009-2010	27611	8140
2010-2011 (Upto Jun'10)	397	282
Total	207747	74627

However during the course, the sanctioning of fresh loans under the scheme was put on hold in April 2007 for effecting modification and the modified TUFS scheme was announced with effect from November 1, 2007. However, on June 29, 2010, once again the scheme was put on hold citing paucity of funds and stating that the entire allocation for entire plan period has been utilized. Due to the consistent appeal of the industry, the Cabinet Committee on Economic Affairs approved additional fund of ₹ 1,972 crores for new projects and ₹ 5,432 crores to meet the liabilities towards al ready sanctioned loans making the total allocation under the Scheme to ₹ 15,404 crores and announced Restructured TUFS on April 28, 2011 and mentioned that the Scheme benefits would not be made available for the suspended period (i.e; June 29, 2010 to April 27, 2011). The industry is making continuous plea to give retrospective effect to the Restructured TUFS from June 29, 2010 and not to leave any blank period in the Scheme as many mill have availed loans expecting continuance of the Scheme. The following table shows year wise cost of projects sanctioned and the amount disbursed as subsidy under the Scheme.

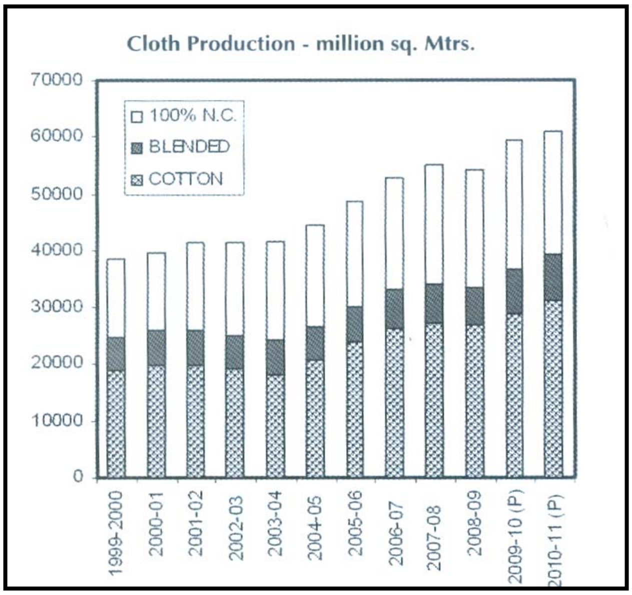
The global economic crises surfaced in September 2008 has drastically affected the progress of Scheme and with slight revival in the global economy when it progressed the temp has been affected very badly because of the sudden spurt in cotton prices and also declining demand for cotton textiles both in the domestic and export sectors because of high cost and other factors. Of the 18 industry segments, spinning segment got sanctions for projects worth 67,822 crores and got ₹ 25,519 crores as subsidy accounting for about one third of the total project cost sanctions and subsidies.



Yarn Production

Heavy investment made on capacity expansion of yarn production machinery lead to increased production of cotton yarn. The following chart shows the increase in yarn production. It may be observed that the production of all yarn has increased to 4647 million kgs in 2010-11 from the level of 3046 million in 1999-2000 registering an increase of more 55.9 per cent and that of cotton yarn has increased by 56.2 per cent to 3443 million kgs from the level of 2204 during the period.

Cloth production



With increased yarn production, cloth production has also increased. All cloth production by mill sector, handloom sector, decentralized powerloom sector and decentralized hosiery sector put together increased by 58 per cent to 60,999 million square metres in 2010-11 from the level of 38,627 million square meters in 1999-2000 registering an increase of 58 per cent. Of which cotton cloth production increased to 31,201 million square metres from 18,989 million square meters registering an increase of 64 per cent during the period. The following charts show the production of cotton, blended and 100% non-cotton cloth since 1999-2000.

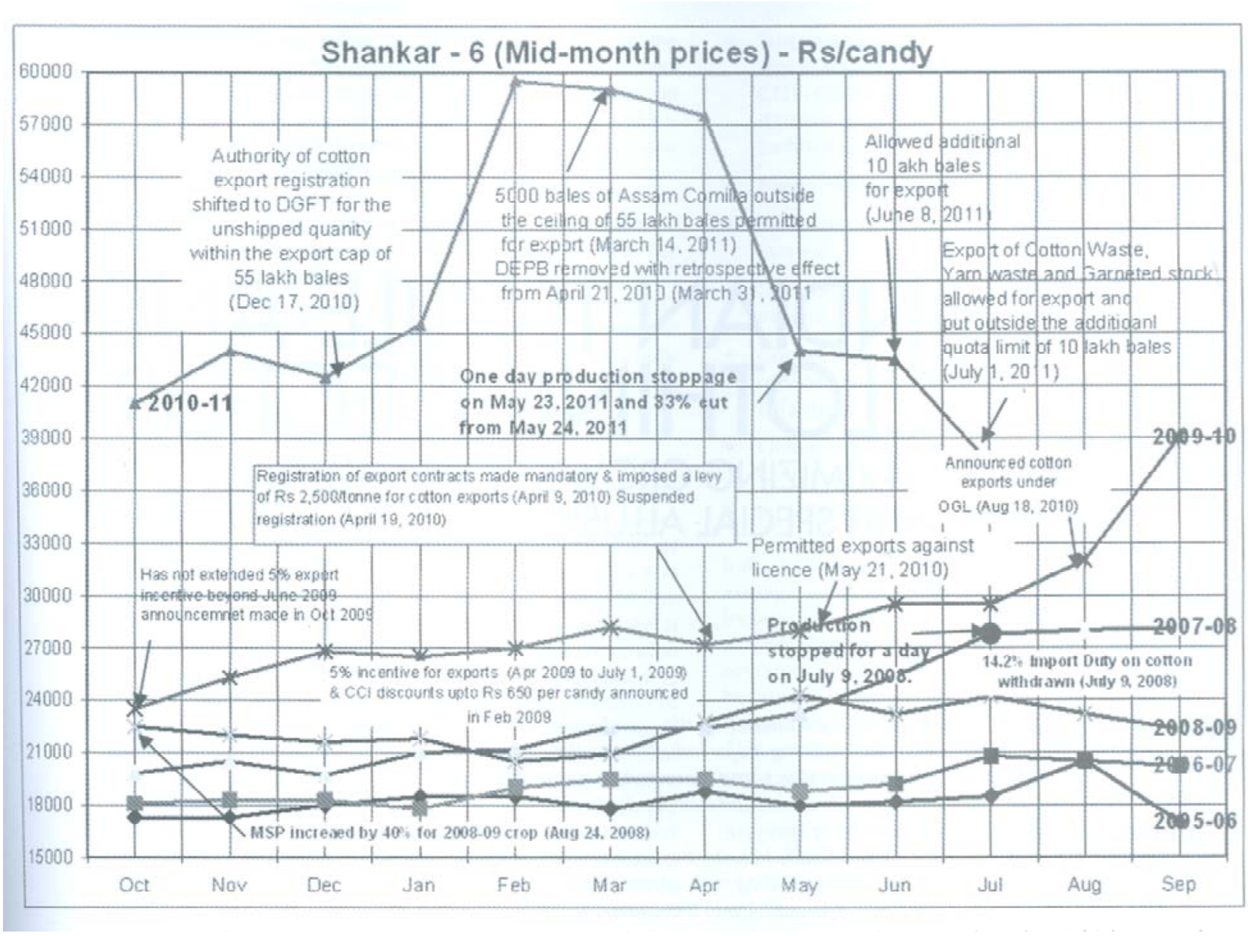
Continuous capacity addition and technology upgradation has helped in increasing production. However, the industry has to further go up in the value chain for better realization.

Current scenario

The industry which has been badly affected by the outburst of global recession due to collapse of Lehman Brothers in the US which triggered the recession and due to coordinated efforts of the developing countries made the global economy to arrest the slow down and register marginal growth at the beginning of 2010 had affected the prospects of the Indian textile industry very badly due to shrinking both external and internal demand. The country has been going through a regime of higher inflation compelling the central bank to increase its repo and reverse repo rates to adjust the money in circulation. This along with switching over to base rate regime has resulted in higher cost of money and affected not only the future plans but also the present day business.

The textile industry which is highly labour oriented, using cotton as the prime raw material could not derive benefit out of home grown cotton because of lopsided policies of the government allowing multi-national trade firms to open shop in the country who were flooded with cheap funds. In turn, they became the major procurer who has the financial mite to take into command the domestic cotton market and manipulated the price level by creating artificial shortage in the market. Global shortage of cotton due to crop damages in other cotton growing countries like China, Pakistan, Australia etc and the domestic policies of the government altered at frequent intervals helped them to retain the command. With strong objections from all segment of the textile industry the government started initiating some measures like putting a cap cotton exports, making registration of cotton export contracts mandatory, etc. The following chart shows the movement of cotton prices since 2005-06 season. The effect of the lopsided policies can be visualized easily.

The spurt in cotton prices during current season without matching increase in cotton yarn prices and declining demand has made the spinning mills to curtail their production activities. While the domestic demand has come down drastically due to reduced activity by the down stream sectors due to various factors like high cotton prices, lower off take, environmental problems, etc. The global demand has also receded and the global buyers were asking for steep cut in yarn prices. Instead of encouraging cotton yarn exports, the government had prevented from exporting cotton yarn from December 1, 2010 citing that the cap of 720 million kgs has been reached and later categorized it under restricted list. This has resulted in a glut of cotton yarn in the country as both the domestic and external demand also declined.



Added to the woes, shortage in power supply has compelled to under utilize machinery and the labour cost is going up. With cost of all factors of production beyond the control of the management, all the mills are incurring cash losses and have stopped production for a day on May 23, 2011 and decided to cut production by one-third from the next day. As there was no improvement in the market conditions even alter a fortnight, few mills have decided to stop all production activities for a period of ten days starting from June 14, 2011 and many others production.

Under these compelling conditions, appealing the government to come to rescue on war footing by extending the withdrawn benefits under Duty Entitlement Pass Book Scheme, Duty Draw Back Scheme, interest subvention of 4.5 per cent for export of textile & clothing, withdrawal of the ten per cent excise duty imposed on branded garments and to reduce the margin money for purchasing cotton to 10 per cent with nine months credit period as cotton is a seasonal commodity. In addition, to increase the moratorium period by two more years for all the loan and interest including the ones taken under the

Technology Upgradation Fund Scheme as more than ₹ 40,000 crores investments have been made in the spinning mills.

The future

Though the industry is facing challenges on all fronts, with the heavy investments made emerging as the second largest producer of yarns in the world, various initiatives taken for integrating various segments in the textile chain for moving up in the textile value chain, diversifying into technical textiles, etc and supported by very strong domestic bottlenecks will be over come in the near future and in the long run the country will emerge as the clothier of the globe.

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