India – Land of Opportunities

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The Indian Economy

India, world's largest democracy with 1.2 billion people, is an emerging economy which has witnessed unprecedented levels of economic expansion, alongside China, Russia, Mexico and Brazil. India has undergone a paradigm shift owing to its competitive stand in the world. India is a cost effective and labor intensive economy, and has benefited immensely from outsourcing of work from developed countries, and has a strong manufacturing and export oriented industrial framework. The Indian economy is on a robust growth trajectory and boasts of a stable annual growth rate, rising foreign exchange reserves and booming capital markets among others.

India is rapidly growing with GDP growing by 8.5% in 2010-11 and 9.0% in 2011-12. India is considered to be second most attractive Foreign Direct Investment (FDI) location in the world receiving a total of US$ 25.9 billion of FDI in 2009-10. Investment rate in India is expected to be 37% in 2010-11 and 38.4% in 2011-12 while domestic savings rate is expected to be 34% in 2010-11 and 36% in 2011-12. As per McKinsey reports, India's economy will grow fivefold in the next 20 years.

India has a huge labour force (nearly 530 million) and also large pool of skilled manpower; strong knowledge base with significant English speaking population. India's economy will benefit from demographic dividend of having a young population with a median age of 30 years by 2025. The proportion of population in the working age group (15-59 years) is likely to increase from approximately 58% in 2001 to more than 64% by 2021. As per McKinsey, the urban population of India will double from the 2001 census figure of 290 million to approximately 590 million by 2030.

India has a stable political environment and responsive administrative set up with investor friendly policies and incentive based schemes and well established judiciary to enforce rule of law. India is a land of abundant natural resources and diverse climatic conditions with huge untapped market potential.

According to a report by the United Nations Industrial Development Organisation (UNIDO), India is now one of the top 10 industrial nations of the world and has also withstood the financial recession with a growing trend of productivity in its manufacturing industries. According to the latest estimates available on the Index of Industrial Production (IIP), the index of mining, manufacturing and electricity sectors registered growth rates of 5.9%, 8.1% and 5.6% respectively during 2010-11 which moved the overall growth in the General Index to 7.8%.

The Indian Textile Industry

The Indian textile industry holds significant status in the country and has an overwhelming presence in the economic life of the country. Textile industry provides one of the most fundamental necessities of the people. It is an independent industry, from the basic requirement of raw materials to the final products, with huge value-addition at every stage of processing.

The Indian textile industry contributes about 14% to industrial production, 4% to the country's gross domestic product (GDP) and 17% to the country's export earnings, according to the Annual Report 2010-11 of the Ministry of Textiles. It provides direct employment to over 35 million people and is the second largest provider of employment after agriculture. Thus, the growth and all round development of this industry has a direct bearing on the improvement of the economy of the nation.

India is the largest producer of Jute, the 2nd largest producer of Silk, the 2nd largest producer of Cotton and Cellulosic Fibre / Yarn and 5th largest producer of Synthetic Fibers/Yarn.

As per the latest IIP data, the cotton textile sector registered an increase of 10.0% in output in 2010-11. However, the wool, silk and man-made fibre textiles category grew insignificantly at 0.2% while jute and other vegetable fibre textiles (except cotton) grew enormously by 33.6% and the textile products (including apparel) category registered a mere 3.7% increase during 2010-11.

The production of fibres has increased by 6% to 6585 million Kgs. whereas the production of spun yarn has reported an increase of 11% to 4647 million Kgs. in 2010-11 as compared to 2009-10. The total cloth production has increased by 2% during 2010-11 as compared to 2009-10, according to the Ministry of Textiles.

The total textile exports during April-September 2010 (provisional) were valued at US$ 11275.58 million as against US$ 10115.78 million during the corresponding period of the previous year, registering an increase of 11.47 per cent, as per the latest data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), Kolkata.

India has the potential to increase its textile and apparel share in the world trade from the current level of 4.5 per cent to 8 per cent and reach US$ 80 billion by 2020, as per a Ministry of Textiles press release dated November 2, 2010.

According to the Ministry of Textiles, technical textiles are an important part of the textile industry. The Working Group for the Eleventh Five Year Plan (2007-12) has estimated the market size of technical textiles to increase from US$ 5.29 billion in 2006-07 to US$ 10.6 billion in 2011-12, without any regulatory framework and to US$ 15.16 billion with regulatory framework. The Scheme for Growth and Development of Technical Textiles aims to promote indigenous manufacture of technical textile to leverage global opportunities and cater to the domestic demand.

Various Government initiatives like Technology Upgradation Fund Schemes (TUFS), Scheme for Integrated Textile Park (SITP), 100% foreign direct investment (FDI) in the textile sector has boosted the investments in Indian textile sector while the Government has also launched the Integrated Skill Development Scheme for the Textiles & Apparel Sector, including Jute & Handicrafts, with an objective of capacity building of Institutions providing skill development & training in Textiles Sector. Further, the government has launched US$ 44.44 million mission for promotion of technical textiles which also includes the upgradation of the existing four new research centres and setting up of four new research centres for the industry, which includes segments like geotech, agrotech, meditech, protech, sportech, indutech and for products like composites and nonwoven.

The Indian Textile Engineering Industry

The Textiles Engineering Industry (TEI) is one of the largest capital goods industries in India and has contributed substantially over the last five decades to the economy of the country in term of providing modern machinery to the different segments of the textiles industry, and exporting a part of its production to more than 50 countries of the world.

As per the survey done by the Textile Committee, production of textile machineries has increased at a CAGR of 3% to ₹ 4245 Crores in 2009-10 from 2004-05 whereas the exports as well as the imports of the textile machineries for the same period has increased at a CAGR of 8% and 15% to ₹ 525 Crores and ₹ 3863 Crores respectively. From 2004-05 to 2009-10, the total domestic demand for the textile machineries has increased at a CAGR of 8% to ₹ 7583 Crores wherein the fact to be highlighted here is the % share of demand met by indigenous industry has reduced from 64% in 2004-05 to 49% in 2009-10.

As a consequence of pre-dominance of the decentralized sector in the textile industry, the demand for domestic capital goods (generally) and hi-tech ones (specifically) have been almost non-existent in the past, except in the spinning sector. Around 50% of the total textile machinery production in the country is contributed to spinning sector whereas around 25% of the production is captured by weaving, knitting and processing machines.

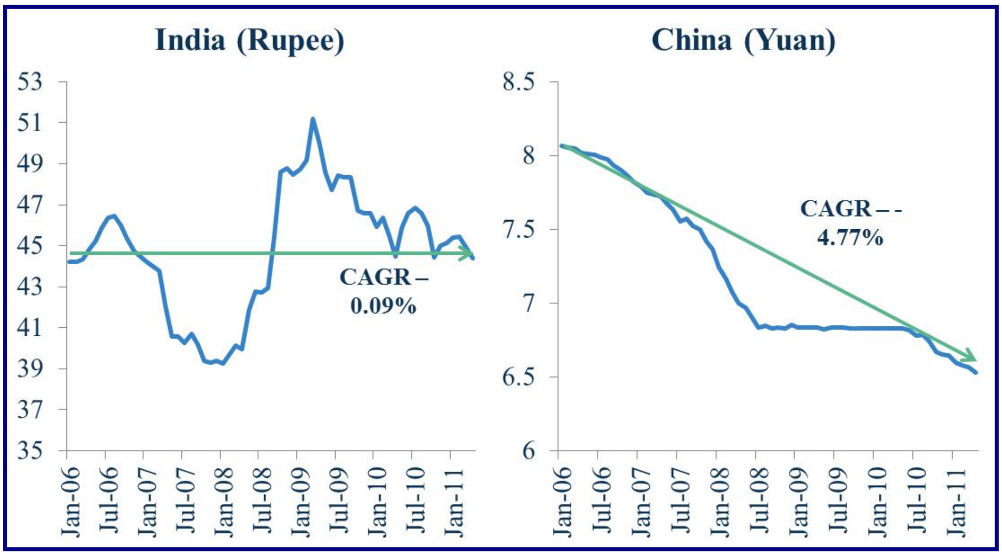
Indian imports of textile machines have increased to 8% of total global imports in 2009 which was around 1% in 2005. Spinning machineries has always been the major imported commodity with around 30% of the total imports; however in 2009, imports of knitting machines were around 30% of total Indian imports. Imports of knitting machines have increased at a CAGR of 8% from 2005 to 2009, the machinery required for manufacturing of nonwoven is the fastest growing machinery sector with CAGR of 55% from 2005-2009.

Also many textile giants like Truetzschler, Rieter have already invested in India owing to the investment potential of the Indian textile industry.

Competitive Advantages over China

India's growth will start to outpace China's within three to five years and hence will become the fastest large economy with 9-10% growth over the next 20-25 years as per the reports by Morgan Stanley.

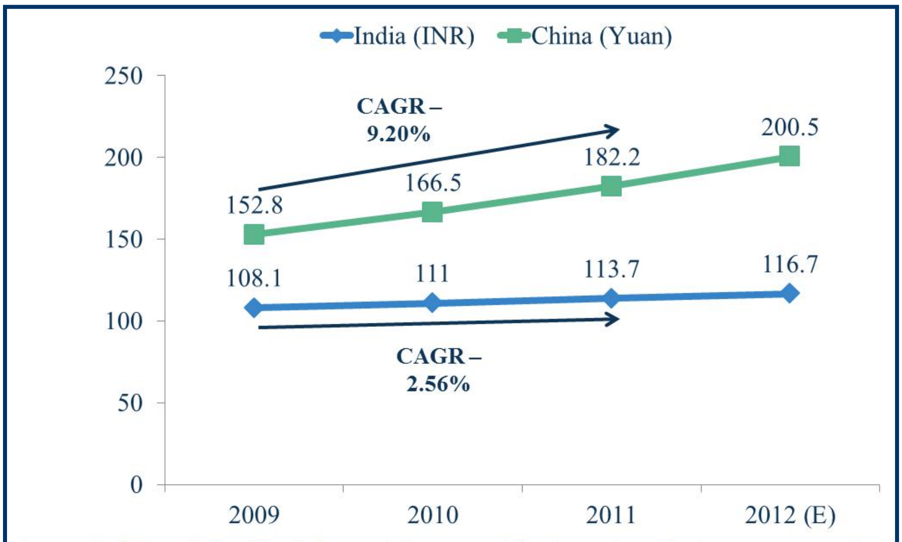
Yuan is appreciating rapidly as compared to India Rupee and hence India will have a tremendous advantage for exports



Wages will be another competitive advantage for India as compared to China

India will grab substantial share from China by the end of this decade due to rising inflation in China, increasing labour costs in China, appreciation of Chinese currency Yuan, increasing environmental restrictions in China the pollution created by the processing industries, rising costs of raw materials in China, shortage of labour and raw material will lead to the closure of the production plants, pressure from importing countries and anti-dumping etc.

Moreover, China's main focus area will be moving towards value added options than textiles and hence due to the share of China captured by India, India will grow in multiple folds in years to come.



Average Real Wages Index - Nominal wages index corrected for changes in purchasing power measured by the consumer price index (100*nominal wage index/consumer price index)
Base 2005=100

Source: Economist Intelligence Unit

Advantage India

Most of the global machinery suppliers have already supplied in India and hence they are very much aware of dynamics in the demands and requirements of the Indian entrepreneur. These suppliers are also aware that the needs of the Indian entrepreneur are very basic as the market is different with just 20% of it is niche market while around 80% is regular textiles. Indian entrepreneur is more anxious of the quality of the machine and will only invest in automation if there is significant reduction in the labour to have a reliable payback period.

Over and above, in the years to come, more and more international textile machinery suppliers will be shifting their manufacturing base to India due to growth of Indian economy, growth of textile industry, higher manufacturing costs in developed countries etc.

The author is associated with Suvin Advisors Pvt. Ltd.