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Man Made Fibres (MMF) Update – Review FY18 & Outlook FY19

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Overview

India is the second largest producer of Manmade Fibre (MMF) and Filaments globally after China, with production of around 2,506 million kgs in FY18, registering a marginal decline of about 0.7% y-o-y after increasing by about 0.5% y-o-y in FY17. However, domestic MMF demand witnessed an uptick in FY18 on account of release of pent up demand post the demonetisation and GST implementation with consumption increasing by about 3.6% y-o-y in Fy18 vis-à-vis a decline of about 7.5% witnessed during the corresponding period previous year. However, increased availability of cotton (substitute) at competitive prices in the domestic market during the year restricted the growth. Also, exports of MMF declined by close to 8% y-o-y in FY18 after increasing by close to 15% y-o-y in FY17 on back of rising polyester prices due to higher input cost led by increasing crude oil prices.

Today, the Indian textile and apparel industry contributes about 7% to industry output (in value terms) and approximately 4% to the country's GDP. The industry is the second largest employer after agriculture, employing over 45 million people directly and over 65 million people indirectly.

MMF industry has been going through a lean phase for the last 5 fiscals. In FY17 and FY18, factors such as sluggish demand, sharp rise in imports, competition from cotton yarn, fall in realization and temporary loss of production on account of demonetization weighed on the industry. However, the domestic economy is on a revival path and is expected to improve going forward. Therefore, *in the short to medium term, CARE Ratings expects MMF consumption to remain relatively stable. While, with an improvement in global landscape, increased demand for technical textiles and constrained cotton availability in the long term, CARE expects polyester consumption to register a steady pick up. Also, with GST rates coming down from 18% to 12% and increase in custom duties on various synthetic yarns and fibres, the industry is expected to remain competitive in the domestic as well the as the international markets vis-à-vis other countries.*

MMF Overview:

The domestic MMF industry mainly comprises two components i.e., polyester and viscose, which together accounts for about 94% (in volume terms) of the total. Under this, polyester accounts for about 77.5% while viscose accounts for the remaining share. MMF is primarily used to produce 100% non-cotton fabrics and blended fabrics, which are in turn used in readymade garments, home textiles and other industrial textiles.

Chart 1: MMF Production & Consumption (Million kgs)

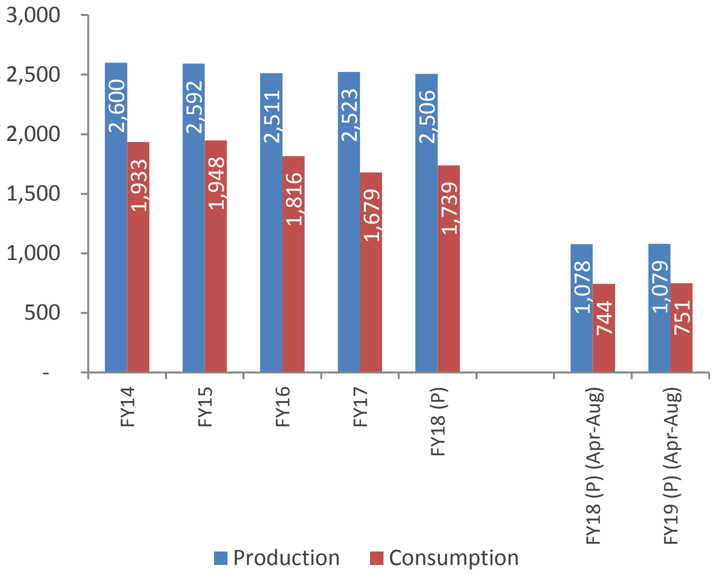
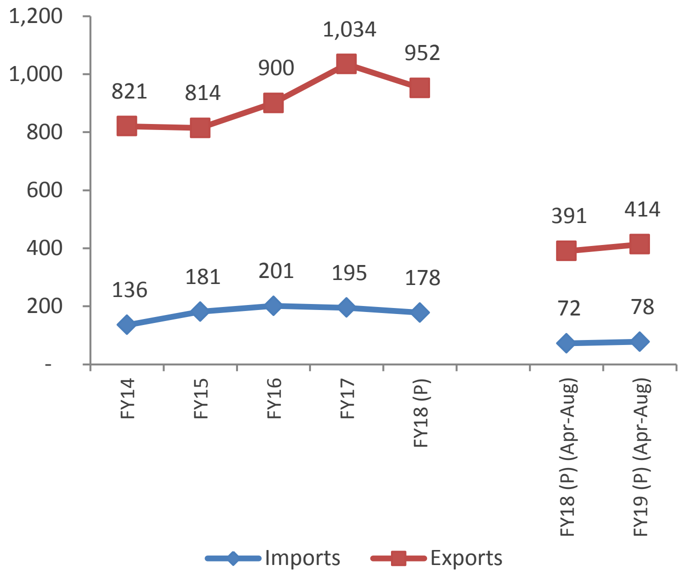


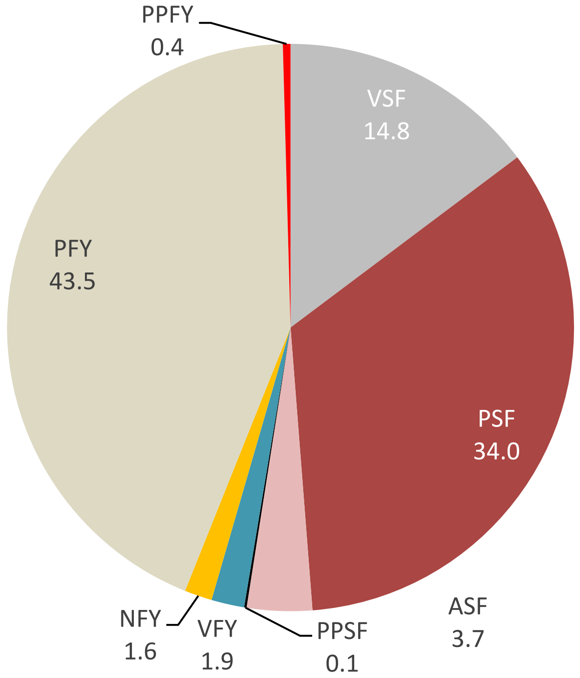
Chart 2: MMF Imports & Exports (Million kgs)



Source: Office of Textile Commissioner

In FY18, the domestic MMF industry in volume terms stood at 2,506 million kgs. The domestic MMF demand witnessed an uptick of about 3.6% in FY18 on account of release of pent up demand post the demonetisation and GST implementation, however, increased availability of cotton (substitute) at competitive prices (cotton prices remained largely stable in FY18 compared with an increase of over 11% and about 7% in PSF and PFY prices respectively – ***Refer Chart 6***) in the domestic market during the year restricted the growth. Also, exports of MMF declined by close to 8% y-o-y in FY18 after increasing by close to 15% y-o-y in FY17 on back of rising polyester prices due to higher input cost led by increasing crude oil prices.

Chart 3: Share of products in MMF – FY18 (%)



Source: Office of Textile Commissioner

Polyester

Under polyester, polyester staple fibre (PSF) and polyester filament yarn (PFY) account for 43.6% and 55.7% shares as of FY18, while Polypropylene Staple Fibre (PPSF) and Polypropylene Fibre Yarn (PPFY) make for the remaining of 0.2% and 0.6% respectively.

Domestic Production and Consumption, Imports and Exports

In cotton season (CS) 2016-17, due to higher availability of cotton on back of over 2% increase in cotton production post decline for 2 consecutive years, production of polyester registered only marginal decline of about 0.3% on a y-o-y basis. Also, on back of liquidity crunch led by demonetisation, textiles industry witnessed muted demand. In FY18, demand was further impacted due to implementation of goods and services tax (GST). Polyester production further declined by about 1% y-o-y in FY18 to reach 1,957 million kgs on back of overall muted demand. However, post Q3 FY18, demand marginally started to pick up and registered a y-o-y growth of about 1.5% in polyester consumption for FY18.

In FY19 (April – August), consumption registered a sharp decline of over 18% y-o-y on back of higher prices. Crude oil prices during the period witnessed a sharp increase of over 47% thereby leading to a sharp increase in the input cost for polyester - purified teraphthalic acid (PTA) and mono ethylene glycol (MEG) by over 33% and 23% y-o-y. Also, higher availability of substitute cotton in the market (over 8% increase in cotton production in CS 2017-18) at comparatively lower prices led to subdued demand for polyester during the period.

Chart 4: Polyester Production & Consumption (Million kgs)

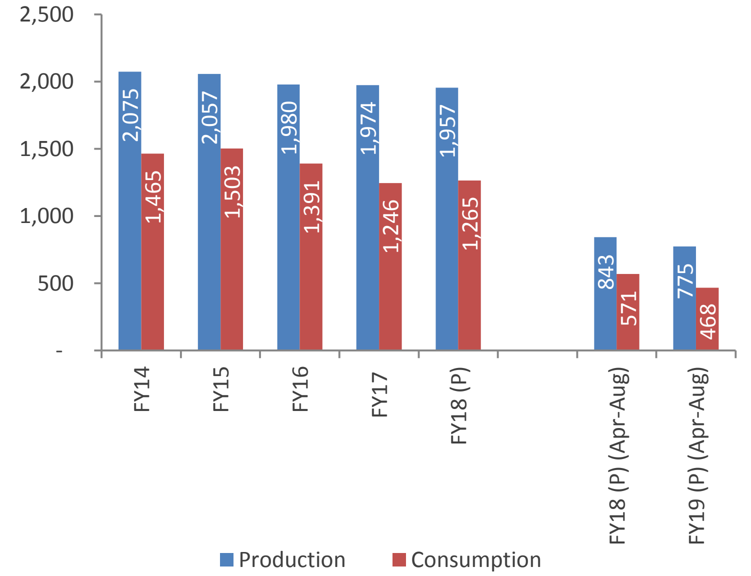
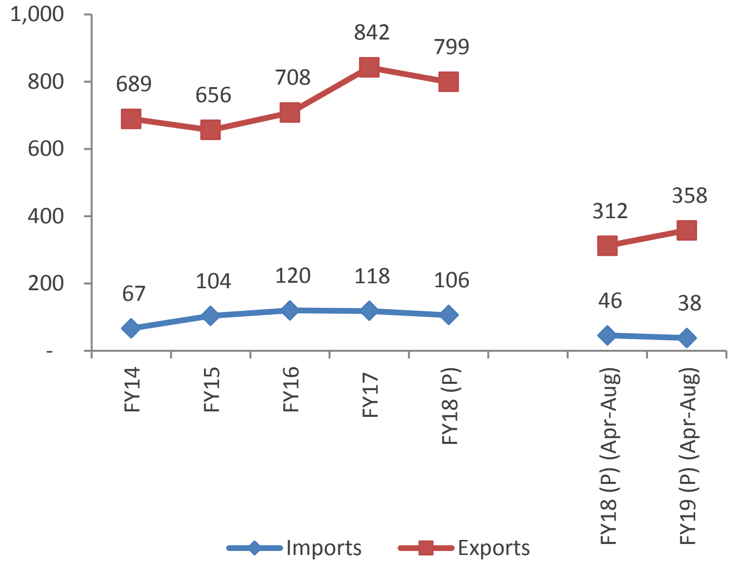


Chart 5: Polyester Imports & Exports (Million kgs)

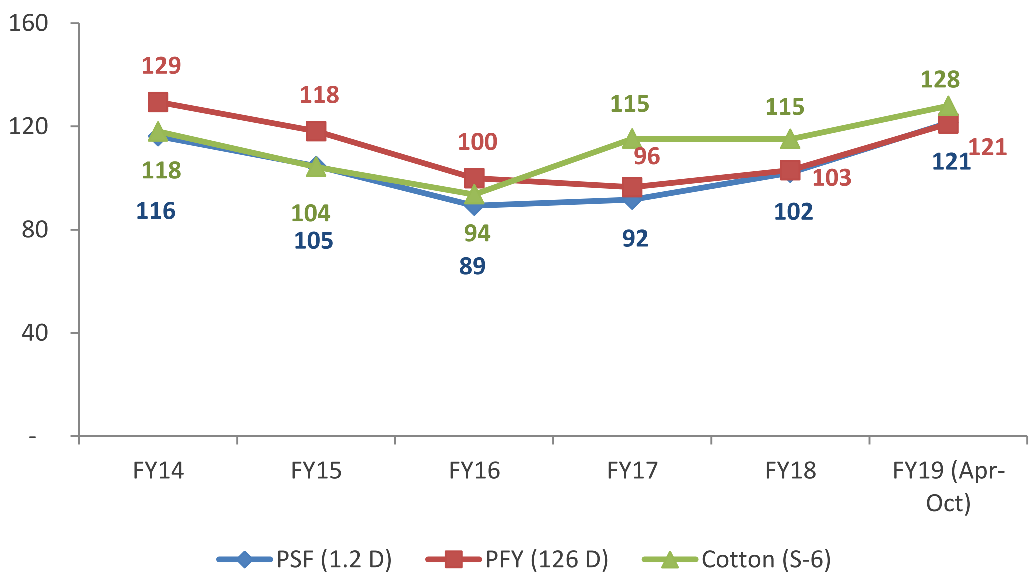


Source: Office of Textile Commissioner

The top export destinations for Indian PSF are USA (19%), Nepal (12%), Bangladesh (10%), Belgium (7%) and Turkey (7%). And for PFY, major exports destinations are USA (28%), Nepal (25%), Bangladesh (5%), Turkey (4%) and Belgium (4%). On the import front, approximately 8-10% of the polyester demand in India is met through imports as of FY18. The key countries exporting PSF to India are China (58%), South Korea (16%), Indonesia (8%), Thailand (6%) and Taiwan (4%) and major countries importing PFY from India are China (45%), South Korea (17%), Indonesia (10%), Thailand (6%) and Taiwan (5%) as of FY18.

Prices

Chart 6: Price Trends (Rs/Kg) - PSF (1.2D) and PFY (126D) vis-à-vis Cotton Prices (S-6)



Source: CMIE

PSF and PFY prices witnessed an increase of about 11.4% and 6.8% respectively on a y-o-y basis in FY18 while cotton prices remained largely stable. Prices further registered a growth of over 19% and 17% during FY19 (April – October) period on back of high input costs while cotton prices witnessed only marginal increase of about 11% during the same period. PSF and PFY prices averaged at Rs 121 per kg each as of FY19 (April – October) period.

Feedstock

Domestic Production and Consumption, Imports and Exports

A. PTA

Chart 7: PTA Production & Consumption (000 tonnes)

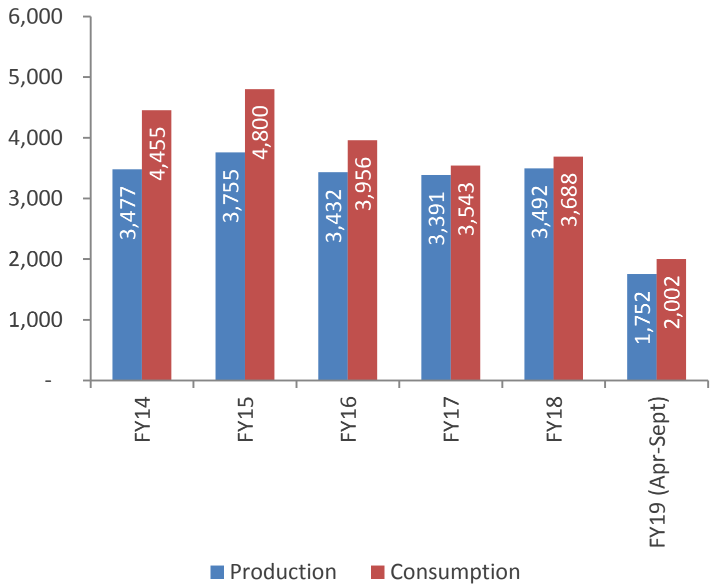
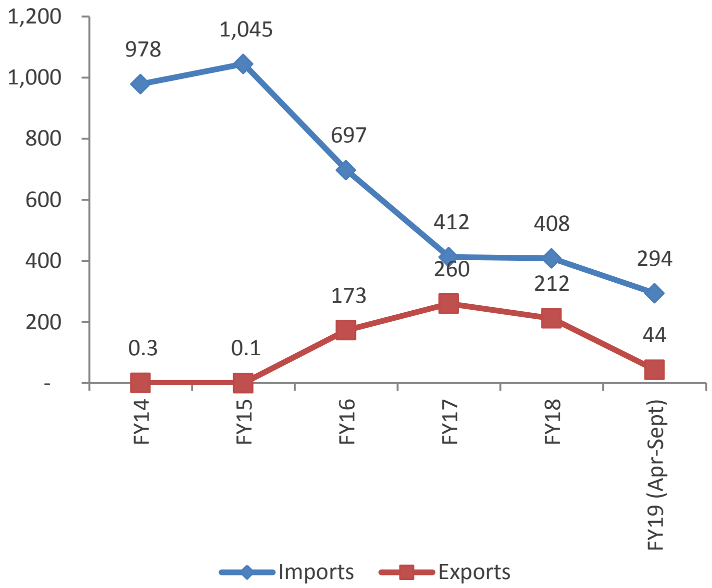


Chart 8: PTA Imports & Exports (000 tonnes)



Source: CMIE

PTA is a key raw material component in the polyester value chain and reacts with Mono Ethylene Glycol (MEG) in the process of continuous polymerisation for producing polyester. ***For production of every 1MT of polyester melt, produced via the process of continuous polymerisation, 0.86MT of PTA is required***. The largest application for PTA is in Polyethylene Terephthalate (PET) for the polyester industry to produce industrial & textile fibres, PET bottles and film & moulded product applications. The PTA industry is a highly organised industry, with Reliance Industries (~70%), Mitsubishi (21%) and IOCL (9%) being the only PTA manufacturers in India.

PTA production in India has largely remained stable at average of about 3,500 thousand tonnes over the last five years. Demand for PTA is driven by the textile and beverages sector. Earlier during FY14-FY15, with increasing consumption of PTA, the demand was met by imports, but with the expansion of capacities by manufacturers in India, the share of imports in the PTA industry declined over the years.

B. MEG

Chart 9: MEG Production & Consumption (000 tonnes)

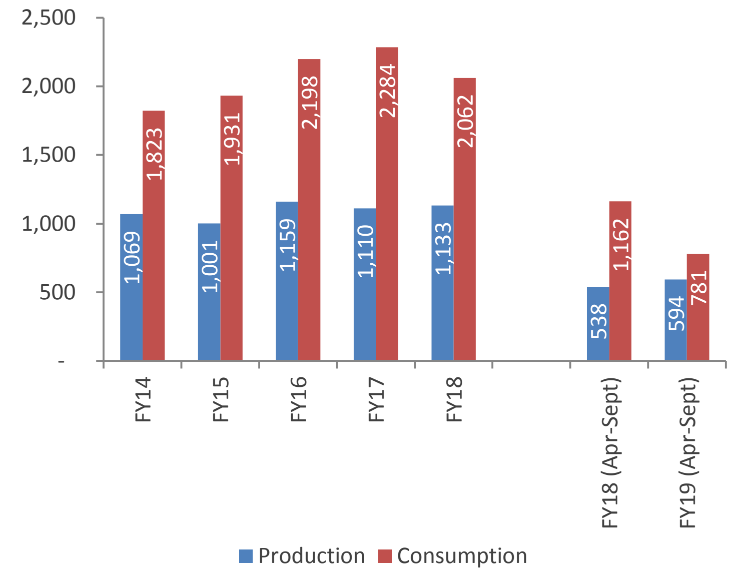
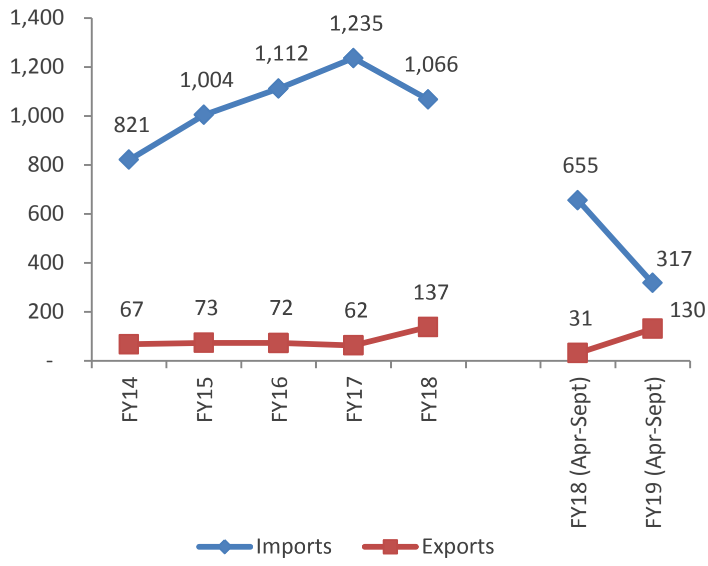


Chart 10: MEG Imports & Exports (000 tonnes)

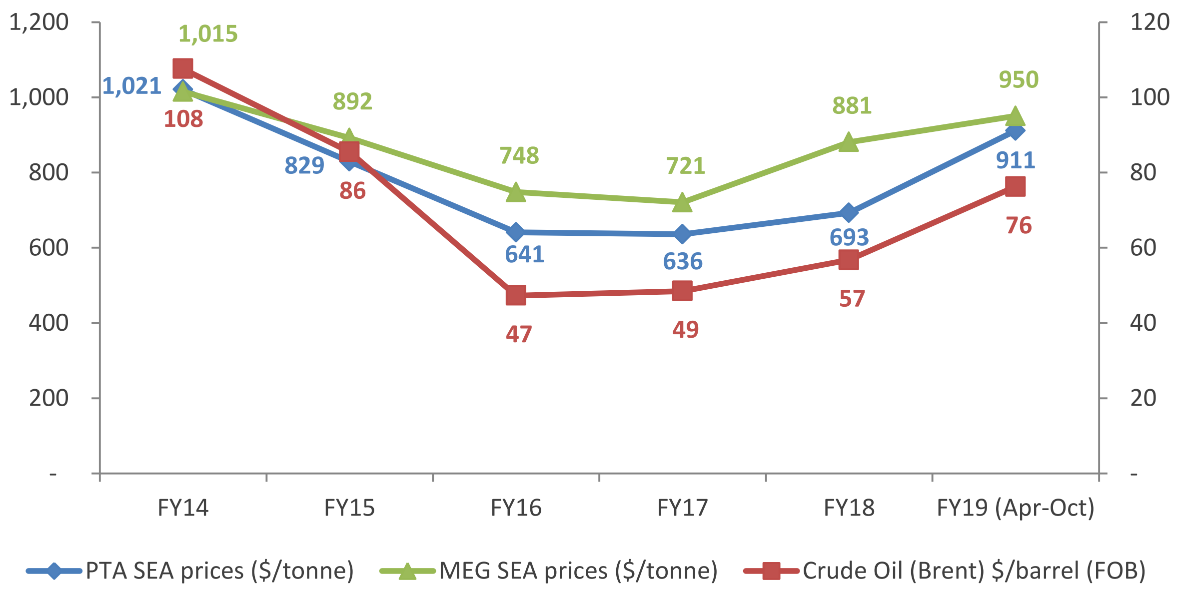


Source: CMIE

The MEG industry is a highly organized industry, with Reliance Industries, India Glycols and IOCL being the only manufacturers in India. The MEG production in India has remained largely stable at around 1,000 – 1,100 thousand tonnes during FY14 and FY18. It registered marginal growth of 1.4% CAGR during the period from 1,069 thousand tonnes to 1,133 tonnes in FY18. Imports had been consistently increasing since FY14, however, in FY18, imports declined by about 13.7% y-o-y on back of higher domestic production and subdued demand. A CAGR growth of about 7% in imports was registered between FY14 and FY18 while consumption recorded a slower CAGR growth of about 3.1% during the period.

Prices

Chart 11: Price Trends – PTA, MEG & Crude Oil



Source: CMIE

The main raw materials of polyester are purified terephthalic acid (PTA) and mono ethylene glycol (MEG). Costs of these petrochemical derivatives are subject to volatility in crude oil prices. The prices remained largely stable in FY17 and declined marginally by about 1% on a y-o-y basis. However, in FY18 with rising crude oil prices, PTA and MEG prices registered an increase of over 9% and 22% y-o-y respectively. *Prices further picked up in FY19 (April - October) by about 40% (PTA) and over 15% (MEG) on back of a sharp 45% y-o-y increase in crude oil prices during the same period.*

Viscose

Domestic Production and Consumption, Imports and Exports

Under Viscose, about 88% share is held by Viscose staple fibre (VSF) while viscose filament yarn (VFY) accounts for the remaining 12%. Viscose production in India continues to be largely stable between FY14 and FY18 at around 400 million kgs registering a marginal CAGR of about 0.7% during the period. The increased production can be attributed to the increased usage of VSF in the growing blended yarn market. After increasing by about 6% in FY17, viscose production increased only marginally by about 1.4% y-o-y on back of muted demand in the country.

In FY19 (April – August), VSF production has managed a sharp growth of about 36.5% to 245 million kgs as compared to 180 million kgs in FY18 (April - October). *Going forward, the VSF demand will be driven by both the textiles and the non-woven segments over the long term. Increasing consumer awareness about the benefits of cellulose fibres has attracted greater focus on offering innovative VSF variants, in terms of colour, texture and other value-added properties.*

Chart 12: Viscose Production & Consumption (Million kgs)

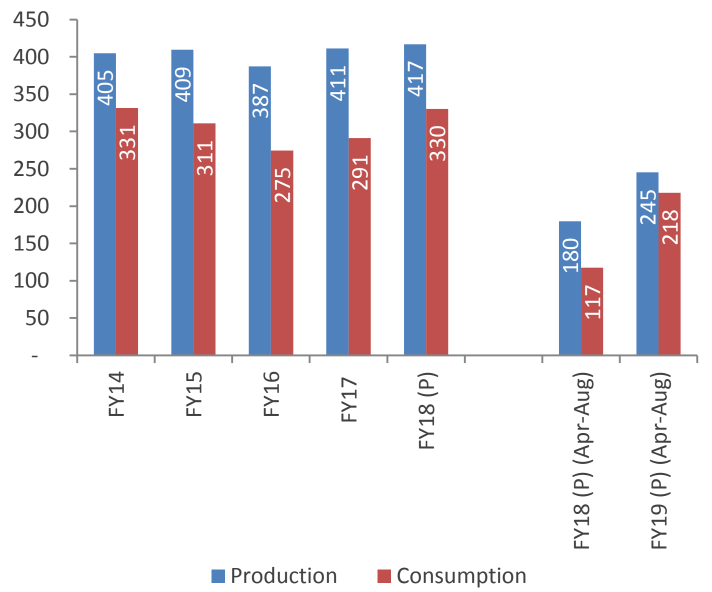
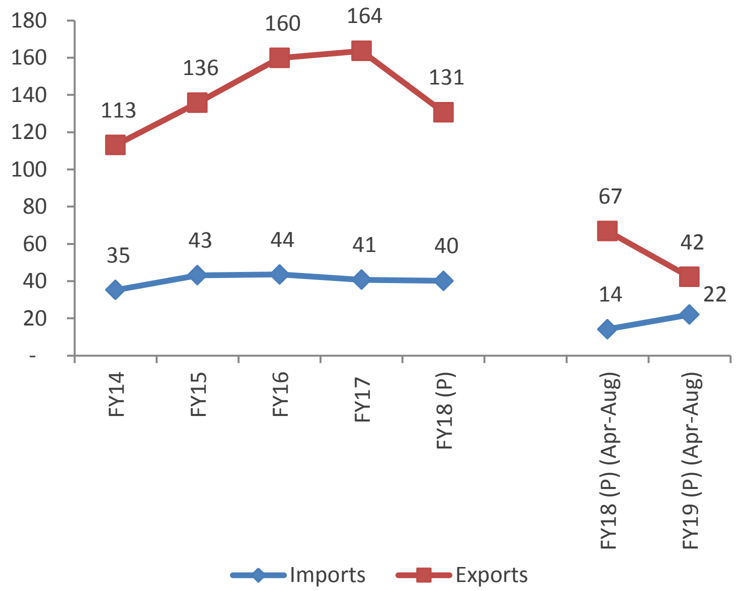


Chart 13: Viscose Imports & Exports (Million kgs)



Source: Office of Textile Commissioner

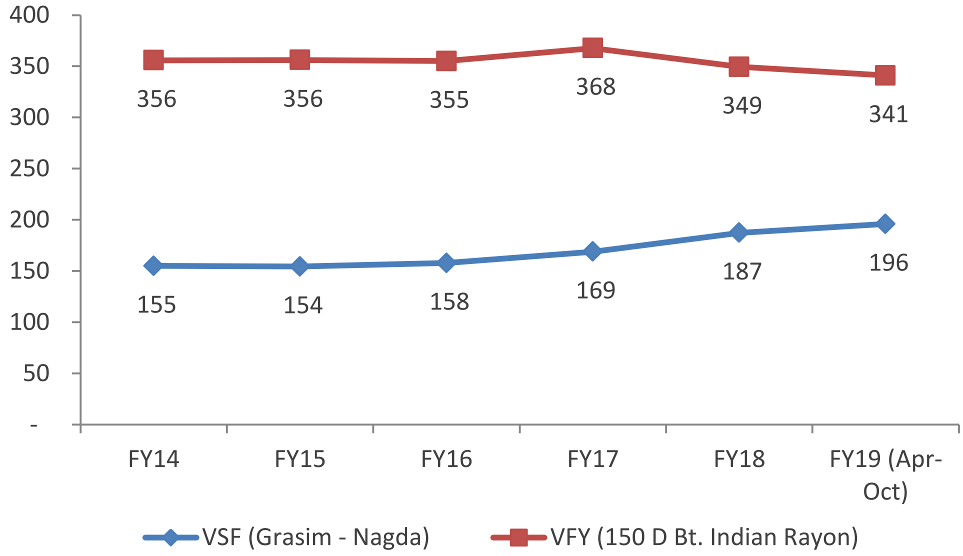
VSF consumption remained largely stable over the period FY14 to FY18 at ~300 million kgs. However, on a y-o-y basis, consumption increased by over 13.4% in FY18. In the current fiscal FY19 (April - October), consumption registered a sharp increase of over 85% y-o-y to 218 million kgs as compared to 117 million kgs during the same period last year.

Grasim being the largest manufacturer of VSF across the globe, a huge amount of VSF produced domestically is exported. The share of exports in the overall production has increased from ~`28% in FY14 to over 31% in FY18. As of FY18, the top five export destinations for Indian VSF are Turkey, China, USA, Bangladesh and Israel. Together these five destinations accounted for about 55% share. Incase of VFY, top 5 export destinations accounting for over 51% are Morocco, Turkey, USA< Czech Republic and Brazil. While the key countries exporting VSF to India are Indonesia and Austria which together accounted for about 85% while China accounted for about 8% share, while China is the single major country exporting VFY to India with a share of over 97% as of FY18.

Prices

The VSF prices are dependent on prices of wood pulp. The VSF prices have largely remained stable during FY14 and FY18. The prices of VSF are also driven by the availability and prices of the other fibres and the energy cost. Currently, the VSF prices are at Rs 196 per kg and prices of VFY are at Rs 341 per kg in the domestic market.

Chart 14: Price Trends – VSF and VFY (Rs/Kg)



Source: CMIE

Outlook:

- With the industry now stabilizing post the demonetization and the implementation of the goods and service tax (GST) regime, the demand from downstream industry - apparels and made-ups from both domestic and international markets, has only marginally picked up in the last few months.
- Polyester has overtaken cotton as the dominant fibre in developing countries, but the cost and availability still plays a significant role in the inter-fibre substitution. Crude oil prices and cotton prices will continue to affect the demand for respective fibre in the world. On the other hand, the Indian textile industry is predominantly a cotton-based industry. However, limited area under cultivation and erratic rain affects the cotton availability in the country. Cotton also faces stiff competition from other higher MSP crops.
- In CS 2018-19, CARE Ratings expects cotton prices to marginally pick up from the current levels and remain firm with the new cotton arrivals in the market on back of improved global demand - exports and increased MSP by the government. ***With limited supply in the market during H1 CS 2018-19 on account of increased orders from China, prices are expected to register a growth of about 5-7% and reach Rs 122 - 125 per kg during this period and average at about Rs 127 - 130 per kg for CS 2018-19 registering a y-o-y growth of about 9-11%.***
- MMF industry has been going through a lean phase for the last 5 fiscals. In FY17 and FY18, factors such as sluggish demand, sharp rise in imports, rigid competition from cotton yarn, fall in realizations and temporary loss of production on account of demonetization weighed down on the industry. However, the domestic economy is on a revival path and is expected to improve going forward. Therefore, *in the short to medium term, CARE Ratings expects MMF consumption to remain relatively stable. While, with an improvement in global landscape, increased demand for technical textiles and constrained cotton availability in the long term, CARE expects polyester consumption to register a steady pick up. Also, with GST rates coming down from 18% to 12% and increase in custom duties on various synthetic yarns and fibres, the industry is expected to remain competitive in the domestic as well the as the international markets vis-à-vis other countries.*