

Indian Readymade Garments (Apparel) Industry Overview

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Overview

The Indian Textiles and Apparels (T&A) industry accounts for approximately 4% of the global T&A market. The T&A industry is one of the largest and the most important sectors for the Indian economy in terms of output, foreign exchange earnings and employment. The industry contributes approximately 7% to industrial output in value terms, 2% to the GDP and 15% to the country's export earnings. It also provides direct employment to over 45 million people and is the second largest provider of employment after agriculture. As per the WTO in its World Trade Statistical Review 2018, India is ranked as 5th largest exporter of RMG in the world.

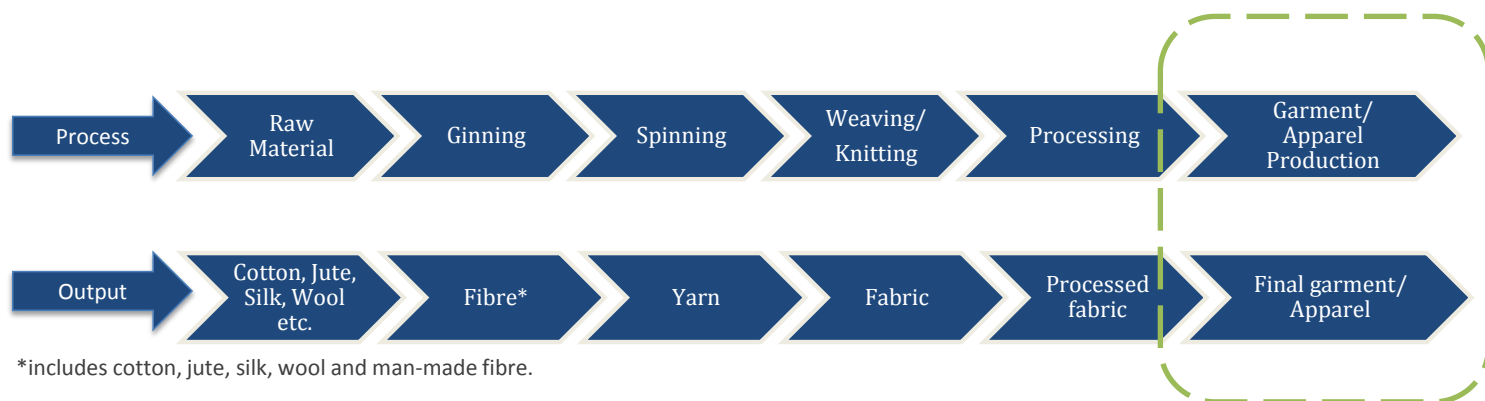
Indian readymade garments/apparels (RMG) industry is the largest segment of the Indian T&A Industry accounting for approximately 50% of the total industry. The domestic RMG sector accounts for approximately three-fourths of the total Indian RMG industry. Given that RMG manufacturing units can be viable at all size levels, particularly because of low cost of plant and machinery, the units range from small to large. Consequently, the RMG sector continues to be dominated by unorganized players. However, the branded apparel market has made steady inroads in the past few years.

The decentralized power looms and knitting sector forms the largest section of the textile sector. The major sub-sectors that comprise the textile sector include the organized cotton/manmade fiber textile mill industry, the manmade fiber/filament yarn industry, the wool & woollen textile industry, the sericulture and silk textiles industry, handlooms, the jute & jute textiles industry and textiles exports. The government has introduced policies like TUFs, SITP, high import tariffs (to discourage imports) and NTP for the development of the textile sector.

A growing economy, rising disposable income and the growing aspirations of Indian consumers is expected to drive growth in the Indian T&A industry.

The textile value chain comprises of spinning, weaving, knitting and garmenting. Also, it uses different materials such as cotton, jute, and wool, silk, man-made and synthetic fibres.

Textile Value Chain



Global Textile and Apparel Trade

The global apparel market is primarily composed of world’s largest economies of US, European Union (EU), Japan and China. The US and EU are the world’s largest apparel importers accounting for 60% of total global imports, followed by Japan with a share of 7-10%. Driven by rising labour cost and strong currency, China has been losing market share over the last few years. On the other hand, exports from Bangladesh and Vietnam have been growing rapidly and Bangladesh is the second largest RMG exporter globally (after adjusting for intra EU trade). Countries like Turkey, Morocco and Tunisia have emerged as key exporters to EU recently on account of their proximity to EU nations.

Table 1: Top 5 exporters and importers of clothing, 2017

	Value (\$bn)	Share in world exports/imports				Annual percentage change			
	2017	2000	2005	2010	2017	2010-17	2015	2016	2017
Exporters									
China	158	18.2	26.6	36.7	34.9	3	-6	-9	0
European Union	130	28.7	31.0	28.4	28.6	4	-12	4	11
Bangladesh	29	2.6	2.5	4.2	6.5	10	8	8	2
Viet Nam	27	0.9	1.7	2.9	5.9	14	9	12	9
India	18	3.0	3.1	3.2	4.1	7	3	-2	2
Importers									
European Union (28)	187	41.1	47.3	45.2	38.5	2	-9	2	1
Extra-EU(28) imports	99	19.6	23.4	24.0	20.3	2	-8	0	3
US	88	33.0	28.7	22.1	18.2	1	4	-6	-3
Japan	28	9.7	8.1	7.3	5.8	1	-8	-2	1
Hong Kong, China	12	-4	-8	-11	-6
Canada	10	1.8	2.1	2.2	2.1	3	-2	-3	6

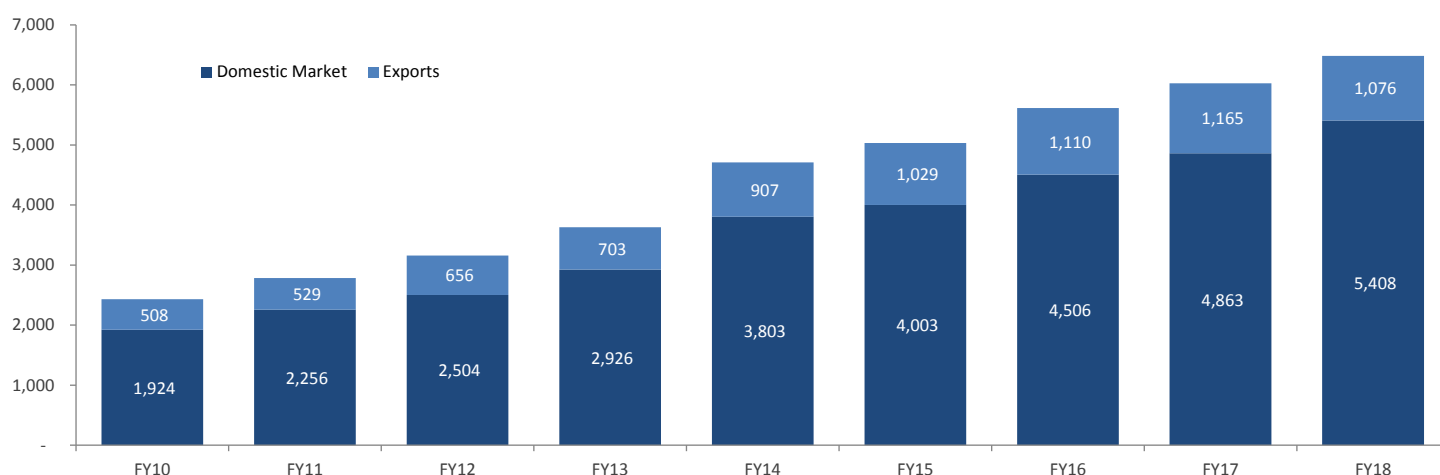
Source: WTO’s World Trade Statistical Review 2018

Global apparel trade demonstrated marginal growth due to weak global demand. Some of the key reasons include economic challenges in China, strong fluctuations in exchange rates, and financial volatility driven by divergent monetary policies in developed countries. European Union, US and China remained the top 3 markets for textile and apparel. They together continued to account for over 50% of the world textile imports, while top 10 markets account for close to 70%.

Indian Apparel Market Size

The apparel industry has two primary segments namely, consumption within the nation and exports from the country. Export numbers of the Apparel industry are readily available; however, market size of the domestic market from a supply side is not readily available (as the size would mean combining the sales revenue of several types of entities, which do not report revenue and the data collection of the same is an inherently daunting and logistically challenging). Hence a suitable proxy from the consumption size has been utilised i.e. value of the private final consumption expenditure (PFCE) on clothing. Consequently the total market size is a combination of export value of apparel products from India and value of PFCE on clothing in India.

Chart 1: Growth in Total Apparel Market (Rs bn)



Note: PFCE Clothing at current price considered as a proxy for domestic market

Source: CMIE

The apparel industry (domestic + exports) in India grew at a CAGR of 13% from Rs. 2,432 bn in FY10 to Rs. 6,484 bn in FY18.

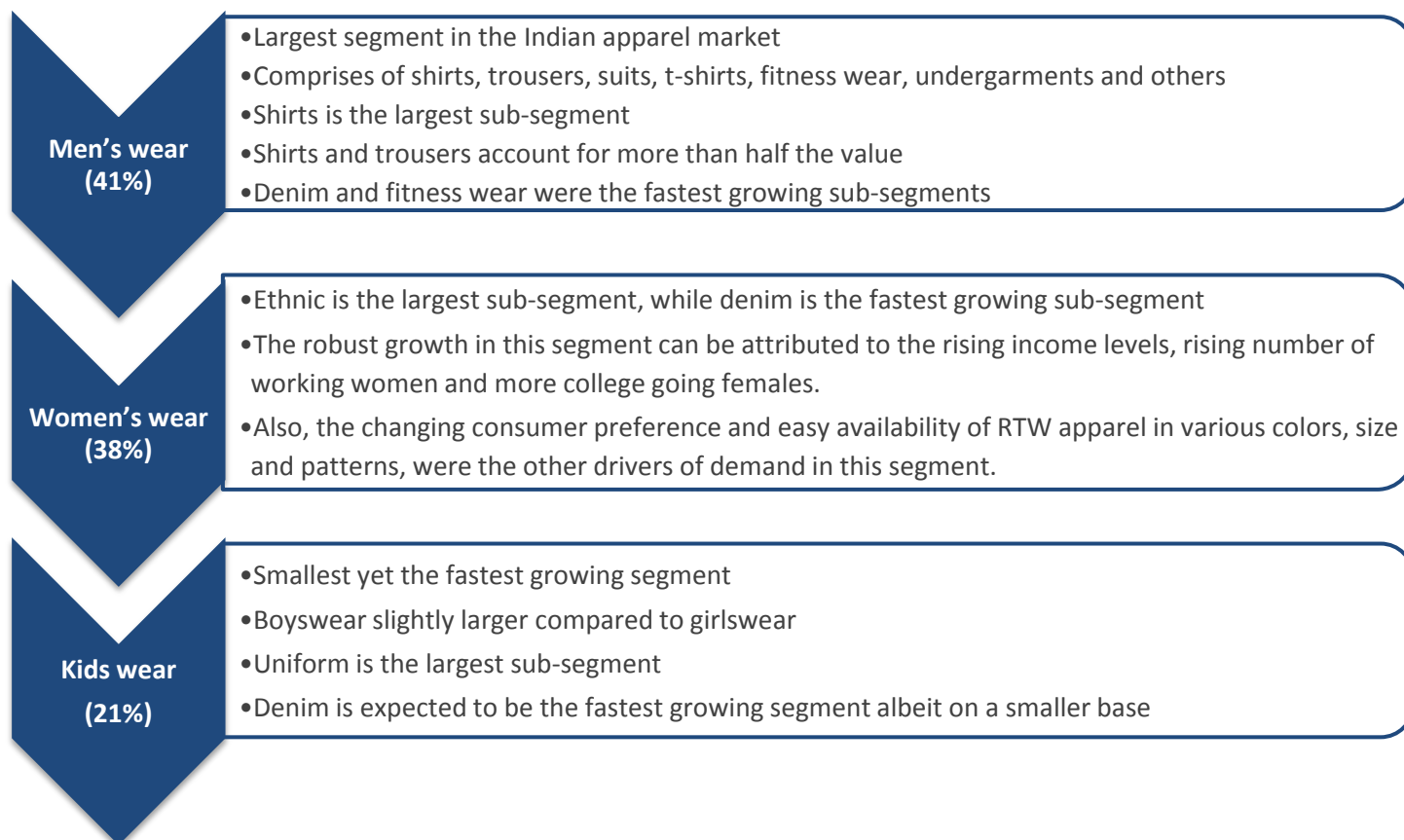
- The export market grew at a slightly slower CAGR of 9.8% from Rs. 508 bn in FY10 to Rs. 1,076 bn in FY18.
- The domestic apparel industry in India grew at a CAGR of 13.8% from Rs.1,924 bn in FY10 to Rs. 5,408 bn in FY18.

The growth can be attributed to 1) rising per capita disposable income, 2) changing fashion trends, 3) growing consumer class, 4) rising urbanization, 5) increasing retail penetration, 6) growing service class and 7) increasing share of the designer wear. Due to the low investments required for setting up a garment unit, many small players have entered the industry making it highly fragmented. Apparel production is dominated by eight clusters, i.e., Tirupur, Ludhiana, Bangalore, Delhi NCR, Mumbai, Kolkata, Jaipur, and Indore. While Tirupur, Ludhiana and Kolkata are major centres for knitwear; Bangalore, NCR, Mumbai, Jaipur, and Indore are major centres for woven garments. Other key cities include Surat.

Domestic Market Segmentation

The domestic Indian apparel market can be broadly classified into men’s wear, women’s wear and kids wear. Currently, men’s wear holds the largest share in the apparel market. It accounts for 41% of the market. Women’s wear contributes almost 38%, while kids wear contributes the balance 21% of the market.

Domestic Market Breakdown



Note: PFCE Clothing at current price considered as a proxy for domestic market

Source: CMIE, Industry, CARE Ratings

The domestic apparel market can also be broadly divided by price into super premium, premium, medium, economy, and value segments. The medium price segment holds majority of the share among apparel segment followed by economy segment. The price sensitive rural population forms a major part of the value and economy price segments of apparel market. Further, driven by the twin trends of premiumisation and value consciousness, the mid-market segment is being squeezed on both sides by the value and the premium segments.

Demand for various apparel categories varies substantially across the country. The urban metro market comprising cities such as Delhi NCR, Mumbai, Bengaluru, Chennai, etc., is the biggest market for apparel in India and contributes over 20% to the Indian apparel market. Considering that less than 20% of India's population lives in these cities indicate the higher purchasing power in urban areas and frequency of purchases. The metros also witness huge penetration of women's western wear as compared to Tier -I or Tier -II cities of the country.

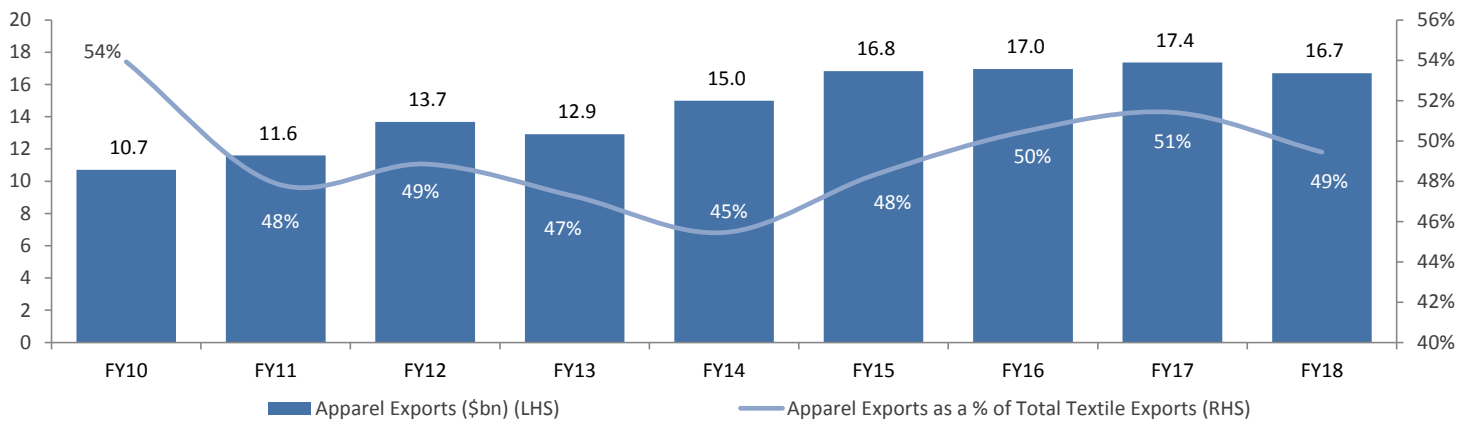
High real estate costs, competition among branded players and saturation in metro cities of the country have driven big brands to move towards the smaller cities. The increasing purchasing capacity and awareness of fashion and trend in small cities has also resulted in providing a huge market to the organised players of the country. The rural apparel market in India is still primarily catered by unbranded and unorganised local players. Need based clothing and price sensitivity among people of rural India does not make it a lucrative market for branded players.

Trade

Exports

India’s apparel exports grew at a CAGR of 5.7% from \$10.7bn in FY10 to \$16.7 bn in FY18. The growth in exports can be attributed to shifting of the apparel manufacturing base from the developed countries like the US and the EU to the low-cost countries such as China, Vietnam, India, Bangladesh and others. Multi Fibre Agreement phase-out at the end of 2004 also helped India to increase its exports. After witnessing a marginal growth of 2.4% in FY17, RMG exports reported a negative growth rate of 3.8% during FY18 due to decrease in competitiveness of Indian players after implementation of GST. In FY18, India’s garment exports also reduced primarily due to competition from countries like Bangladesh, Sri Lanka etc. which have low production cost and enjoy preferential duty access in key markets.

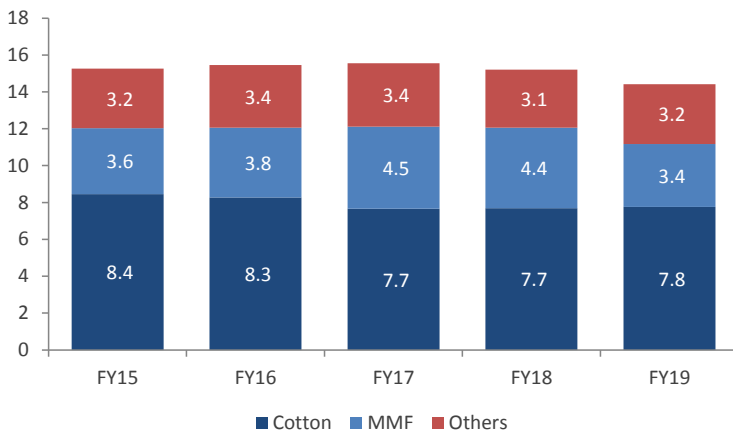
Chart 2: Trend in Apparel Exports (\$bn)



Source: CMIE

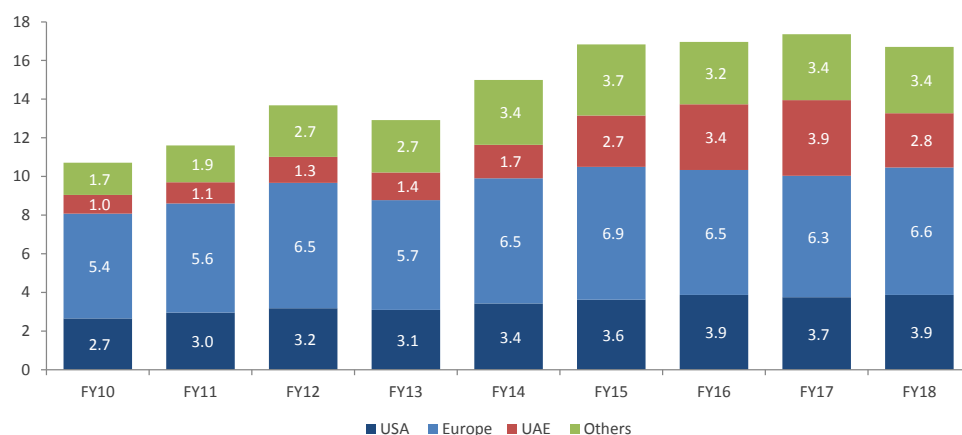
The exports for the eleven months for FY15-FY17 were fairly stable; however, the exports declined by 2.2% in FY18 and the exports have continued this decline in FY19 and worsening by 5.2% primarily due to depressed economic conditions-led lower demand and growth.

Chart 3: India’s Apparel Exports (Apr- Feb period) (\$ bn)



Source: CMIE

Chart 4: Export breakdown – by Geography (\$bn)



Source: CMIE

The US and EU together constitute for approximately, 60% of the total apparel exports from India in value terms. Out of these, the US is the single largest importer, while the European Union is the largest regional importer. The US disengagement from several multinational partnerships coupled with the Indian government's measures to boost exports will help Indian exporters gain market share in the US in the long run. On the other hand, India is projected to lose market share to Bangladesh and Vietnam for RMG exports to the EU, because of lower competitiveness as Bangladesh has duty free access to the EU and Vietnam is expected to gain such access in a longer period. However, apparel manufacturers are now focusing on diversifying their markets; thereby the apparel exports to countries such as Japan, Israel, South Africa and Hong Kong are growing at a very fast rate. The following table details the top textile export destinations from India:

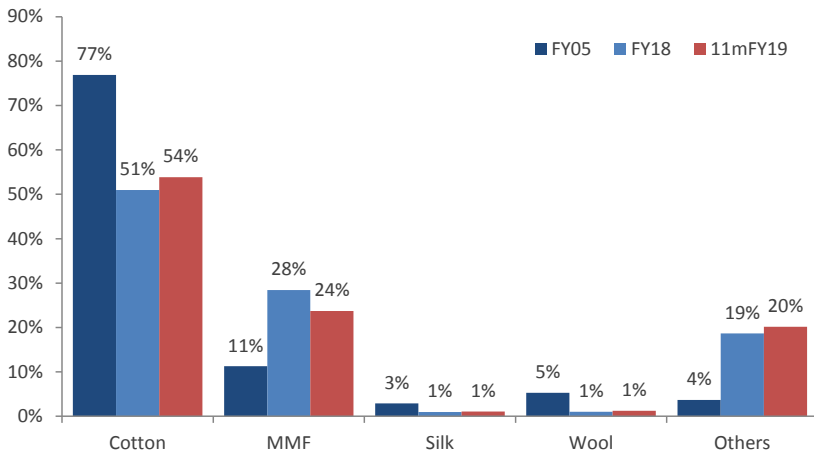
Table 2: List of top 10 export destination for domestic textiles:

Market	FY18 (\$mn)	% Share
USA	3,881	17%
EU	3,318	15%
Bangladesh	2,268	10%
China	1,281	6%
Pakistan	687	3%
UAE	604	3%
Vietnam	554	2%
Sri Lanka	518	2%
Brazil	411	2%
South Korea	339	2%

Source: DGCI&S

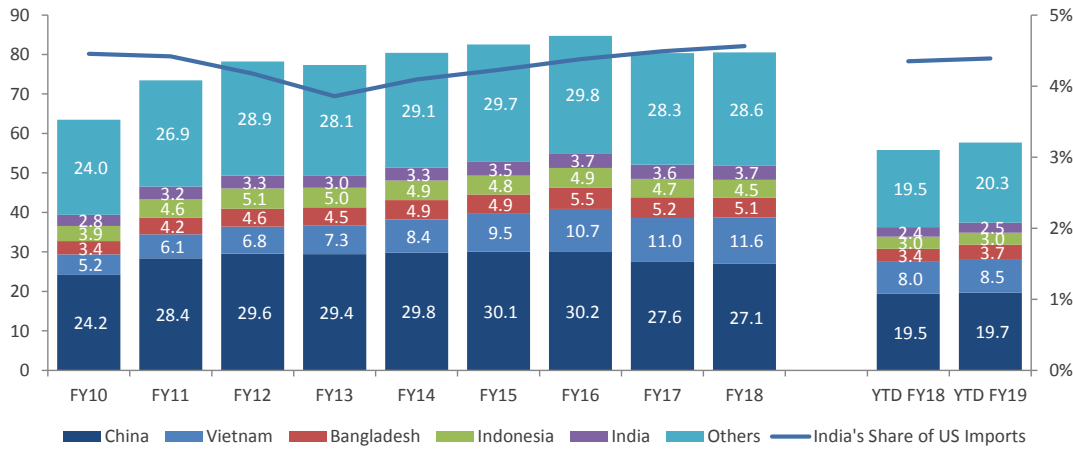
Indian textile industry, predominantly being a cotton-based industry, its apparel exports are also skewed towards cotton which contributed approximately 51% of the overall apparel exports in FY18. Man-made fibre forms the second-largest segment contributing about 28% to the overall apparel exports from India. MMF has steadily cannibalised the share of cotton apparels, mainly due to the price differential and the cotton availability. However, for the eleven months of FY19, cotton has increased its share to 54%, while MMF share has reduced to 24%. Additionally, to remain competitive in the global market, India needs to diversify its fibre base, as global consumption is diversified and MMF holds a much larger share as compared to cotton.

Chart 5: Fibre-wise India's Apparel Exports (Value-terms)



Source: CMIE

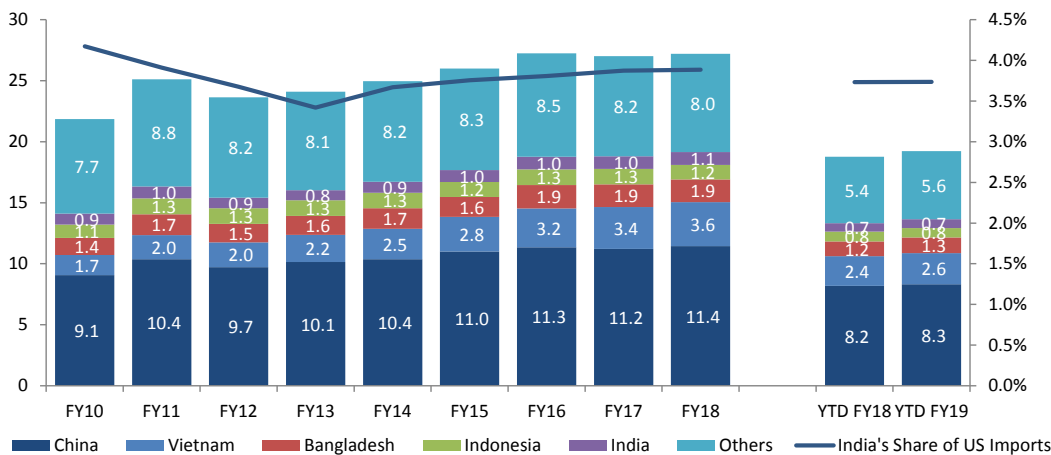
Chart 6: Apparel Imports by the US (\$ bn)



Note: YTD: April to November

Source: CMIE

Chart 7: Apparel Imports by the US (bn sqm.)



Note: YTD: April to November

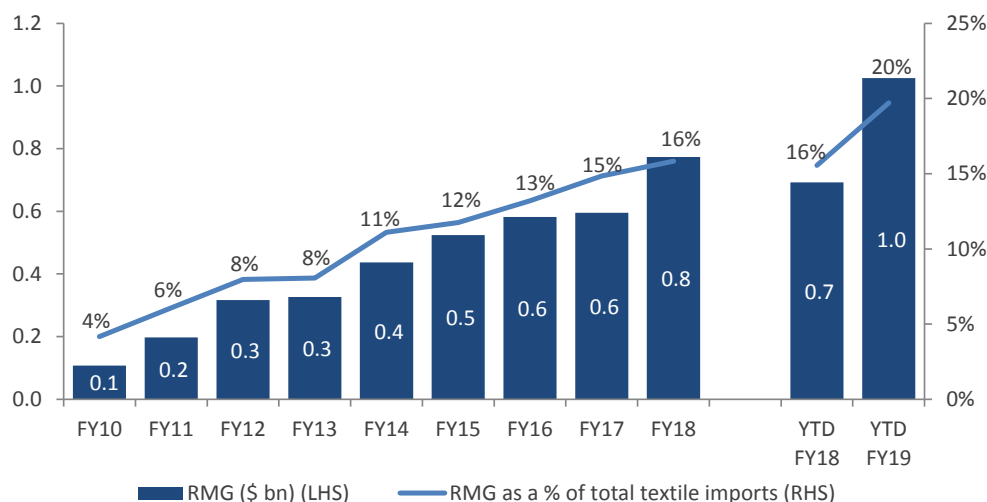
Source: CMIE

Apparel imports by the US have remained flat for the last several years (imports have declined marginally in value terms, while remaining fairly steady in volume terms). India accounts for a small segment of US imports, and at roughly 4% has remained roughly steady for the past several years.

Imports

India is a major textile and apparel exporting nation and has a trade surplus with quite a few nations. Bulk of the textile imports are for meeting the industry’s raw material requirements.

Chart 8: Trend in Apparel Imports (\$bn)



Note: YTD: April to February period
Source: CMIE

Traditionally India’s apparel exports have been significantly higher compared to imports both in absolute as well as a share in the textiles pie. However, even as exports outpace imports by a significant margin, the rise in imports of finished apparel rather than raw material indicates that a bulk of the value addition is being done overseas, impacting domestic manufacturers negatively. Not only has the apparel imports grown significantly (CAGR of 28% for the FY10 – FY18 period) and as can be seen from the above chart, YTD FY19 imports have already crossed the full year FY18 import numbers. The increase in imports can be attributed to China and Bangladesh which accounted for over 60% of the total apparel imports in FY18. These countries have increased their share from 37% in FY10 to 64% in FY18. Zero rated duty of imports from Bangladesh has opened gates for big value imports of apparel and other textile products into India

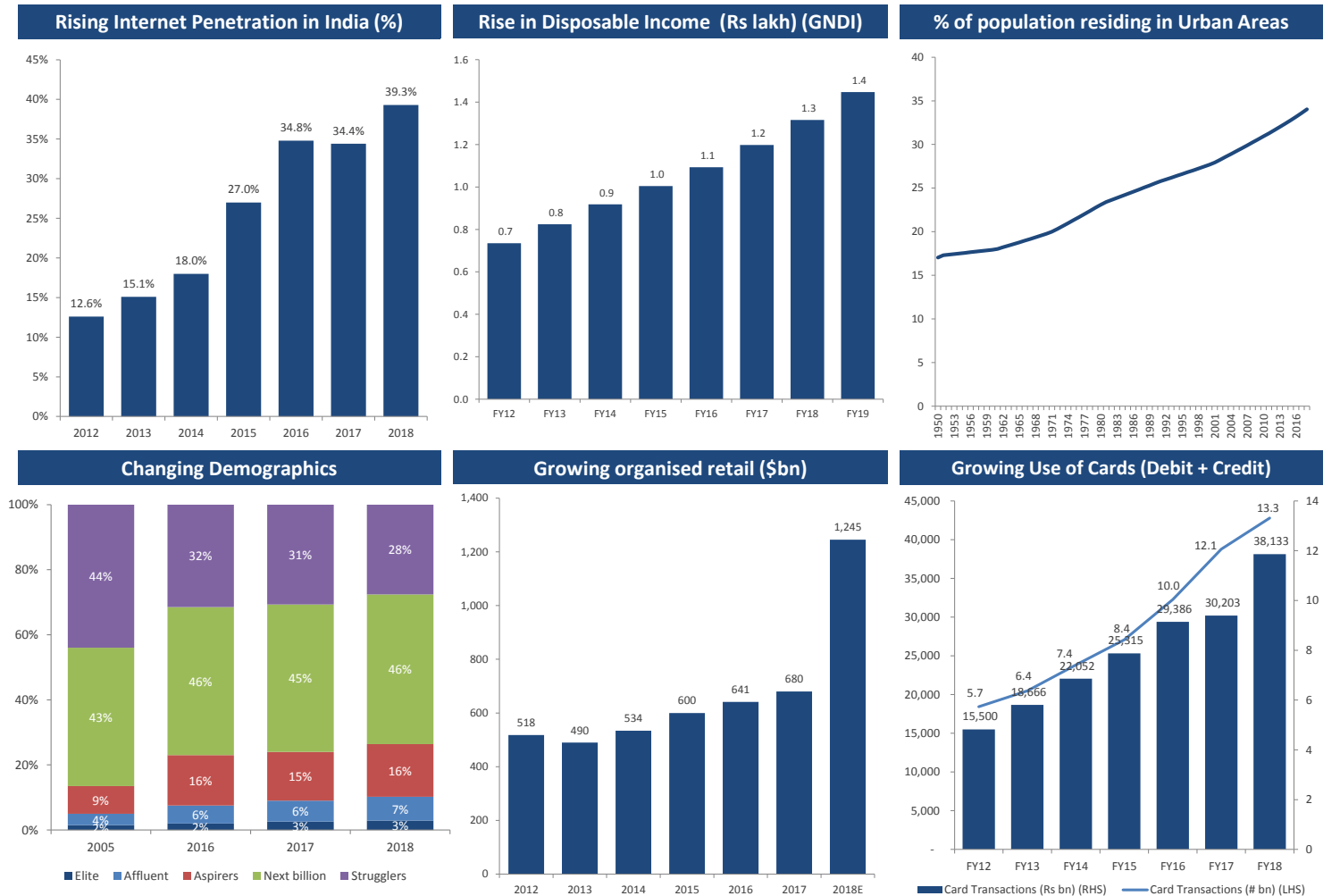
Demand Drivers for the Textiles and Apparel industry:

The demand for textiles and apparel is being primarily driven by 1) rise in disposable income which increases ability to consume, 2) increased usage of plastic money leading to impulsive buying among the Indian consumers, 3) intensifying urbanization leading to demand of varied goods and services, 4) positive demographic dividend along with changing consumer preference (ready to stitch), 5) increased organized retail which increases availability and the rise of private labels coupled with increase in (Ready to wear) RTW rather than RTS (Ready to Stitch), and 6) growth of internet penetration and rise of e-commerce as a viable alternative sales channel.

Additionally, effective implementation of several regulatory measures such as Technology Up-gradation Fund Scheme (TUFS), Refund of State Levies (RoSL), and integrated textile parks, the rising mall culture and the multiple international and home-grown premium and super premium brands are also expected to drive the market size of the Indian apparel industry.

Furthermore, a low per capita fiber consumption as compared to other nations coupled with factors like growing differentiation of apparels into party-wear, office-wear and semi-formals coupled with increasing share of ethnic wear and designer wear are expected to drive the growth of the apparel industry. Additionally, tapping newer export markets enables exporters to offset both saturation and increased competition in the traditional export markets. Sustainable/ eco-friendly manufacturing is also expected to increase the share of natural fabrics in the industry e.g. Wills Lifestyle stating that it would utilise only natural fabrics. The industry is also undertaking significant investments in technology/ digital to 1) ramp up online presence/ ecommerce activities either in partnership or on a standalone basis, 2) modernize supply chain to increase efficiencies and reduce costs, 3) mass customization to drive demand and increase per capita consumption, and 4) increase marketing, enhance customer loyalty and repeat purchases. However, the recent wave of discounts (both online as well as offline), uncertainty due to the upcoming general elections and rise of protectionist measures/ rhetoric overseas could hamper industry realizations.

Chart 9: Trends in Demand Drivers



Note: Urban population as a percentage of the total population
Source: CMIE, United Nations Statistics, IBEF

Challenges

The growth story of the apparel industry in India is confronted by challenges such as Changing consumer behaviour, proposed withdrawal of GSP norms by US which could adversely affect some of the smaller players, comparatively higher trade barriers, locational disadvantages and comparatively lower infrastructure ranking. These challenges require concerted government intervention at various levels to be appropriately resolved.

Higher trade barriers: Indian textile companies face higher trade barriers compared to other competing countries like Bangladesh, Vietnam and Pakistan in key markets such as the USA and EU. Average tariff on textile products faced by India vis-à-vis competing countries in EU and USA are as follows:

Table 3: Country-wise comparison of average tariff rates:

	EU	US
India	5.9%	6.2%
Bangladesh	0.0%	3.9%
Vietnam	6.1%	5.5%
Pakistan	0.0%	5.3%

Source: ITC Trademap, Parliament Q&A

Poor infrastructure facilities: India suffers from a geographical disadvantage as it is located far away from major global fibre-consuming markets like America and Europe compared to its global counterparts - Turkey and China. As a result, India has to bear higher shipment cost with longer lead times thereby impacting exports. According to the World Competitiveness Report 2018, India ranked 63rd among 140 countries in terms of competitiveness in quality of infrastructure. India also lags behind its global counterparts in terms of transportation infrastructure facilities, leading to high transaction cost and longer lead time. For instance, shipping a container of garments from India to the US is costlier and longer as compared with China. Wider geographical spread coupled with the high inland transportation cost has also affected the growth of export oriented textile and related industries in India.

Table 4: Country-wise comparison of infrastructure

Country	Infrastructure Quality (Rank)
China	29
Turkey	50
India	63
Sri Lanka	65

Source: WEF - World Competitiveness Report 2018

India needs to diversify its fibre-base: Indian textile industry is predominantly a cotton based industry. Approximately, 74 per cent of the apparels exported from India are made up of cotton. However, the global apparel consumption is well diversified across fibres. Therefore, to remain competitive in the global apparel industry, India needs to increase the share of MMF based apparels in its overall apparel export portfolio.

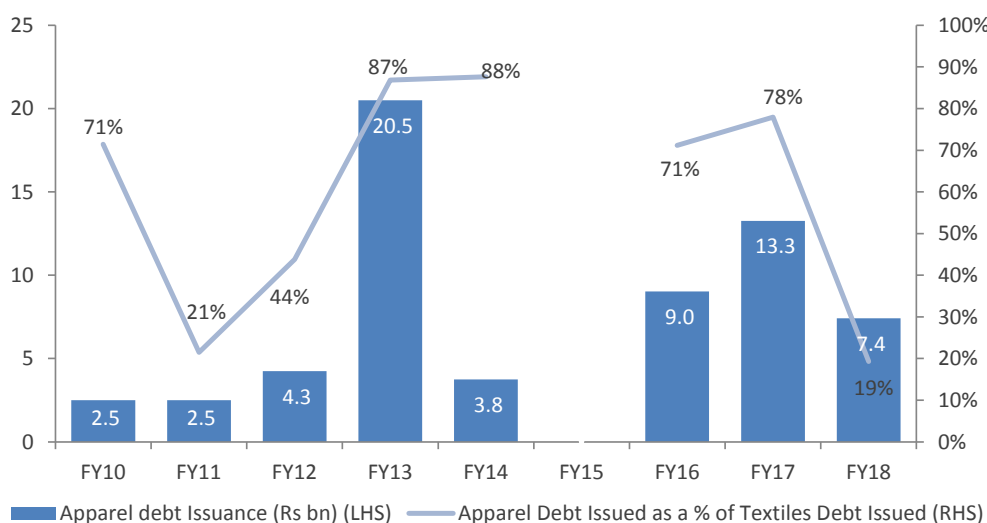
Government Regulations

In order to increase exports of textiles including readymade garments (RMG), Government has undertaken several measures, which include:

- In March 2019, the Central government approved a scheme to rebate State and Central Embedded Taxes for apparels and made-ups exports.
- Interest Equalization Scheme (IES) provides interest subsidy at 5% per annum on pre and post shipment export credit. Market Access Initiative (MAI) Scheme provides assistance to exporters to participate in various international events and invite buyers to domestic events. IGST has been exempted on import under Advance Authorisation and Export Promotion Capital Goods Scheme (EPCG) for apparel products.
- The Directorate General of Foreign Trade (DGFT) has revised rates for incentives under the Merchandise Exports from India Scheme (MEIS) for Readymade garments and Made ups - from 2% to 4%.
- The Government of India has increased the basic custom duty to 20% from 10% on over 500 textile products, to boost indigenous production and the Make in India program.
- The Government of India announced a Special Package to boost exports by US\$ 31 billion, create one crore job opportunity and attract investments worth Rs 80,000 crore during 2018-2020.
- The Amended Technology Up-gradation Fund Scheme (A-TUFS), scheme is estimated to create employment for 35 lakh people and enable investments worth Rs 95,000 crore by 2022.
- The Integrated Wool Development Programme (IWDP) has been approved to support the entire wool sector value chain to enhance the quality and increase the production during the 2017-18 - 2019-20 period.
- The Government of India has approved a skill development scheme named 'Scheme for Capacity Building in Textile Sector (SCBTS)' with an outlay of Rs 1,300 crore from 2017-18 to 2019-20.
- The Union Ministry of Textiles, Government of India, along with Energy Efficiency Services Ltd (EESL), has launched a technology upgradation scheme called SAATHI (Sustainable and Accelerated Adoption of Efficient Textile Technologies to Help Small Industries) for reviving the powerloom sector of India.

Movement in Credit

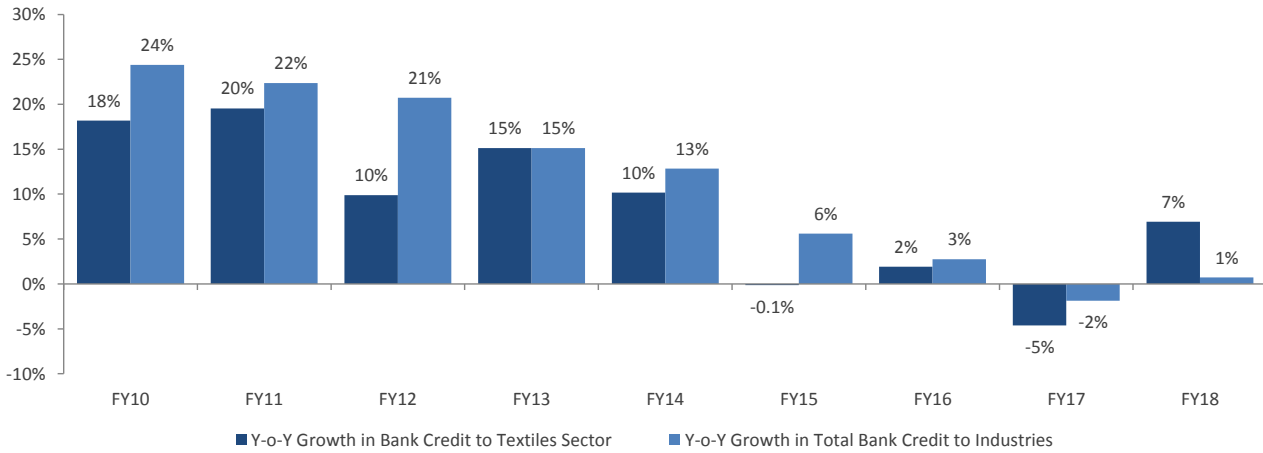
Chart 10: Primary Market Debt Issuance



Source: CMIE

The Apparel sector has traditionally issued debt paper for capacity expansion and has generally accounted for a significant proportion of the textile industry. Since FY10, y-o-y growth in bank credit exposure to the sector was consistently lower than the y-o-y growth in overall bank credit to industries, the last year i.e. FY18 being an exception.

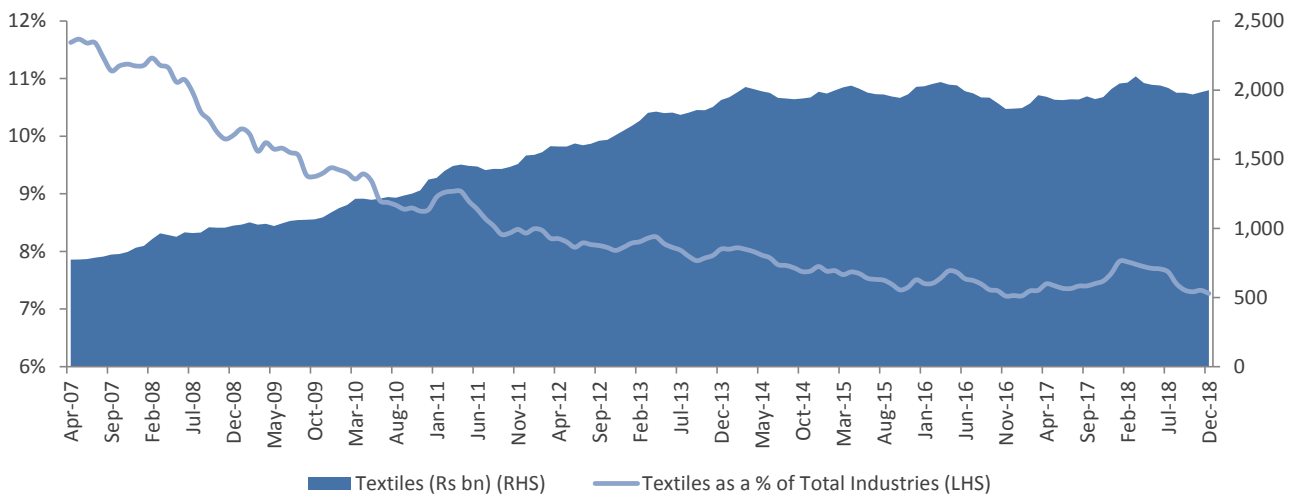
Chart 11: Trend in Growth in Credit Exposure of Banks to Textiles Sector vis-à-vis Overall Industries



Source: RBI

Share of the textile sector in the total credit exposure of banks to industries has been in the range of 7% to 12%. The share was at its highest a decade ago in April 2007 and since then, has been steadily on a downward trajectory. Despite the shrinking share in overall outstanding credit to the industries, outstanding credit to the textiles sector has been on an upward trajectory in absolute terms from Rs. 963.98 bn at FY08-end to Rs. 2,022.13 bn at FY14-end, however the outstanding credit exposure reduced at the end of the subsequent three years i.e. FY15 - FY17. The exposure rose marginally at FY18 end and stood at Rs. 2,099.02 bn. Further in FY19, the outstanding credit exposure has continued its descent despite increases in the months of November 2018 and December 2018. Additionally, the stressed asset ratio, albeit on the higher side, for the industry has decreased over the last two years from 23.7% at September 2016 to 18.7% at September 2018. The improvement in asset quality of industry sector was marked by a reduction in fresh slippages in September 2018. Nevertheless, it remains to be seen whether the industry will continue to witness favourable dynamics.

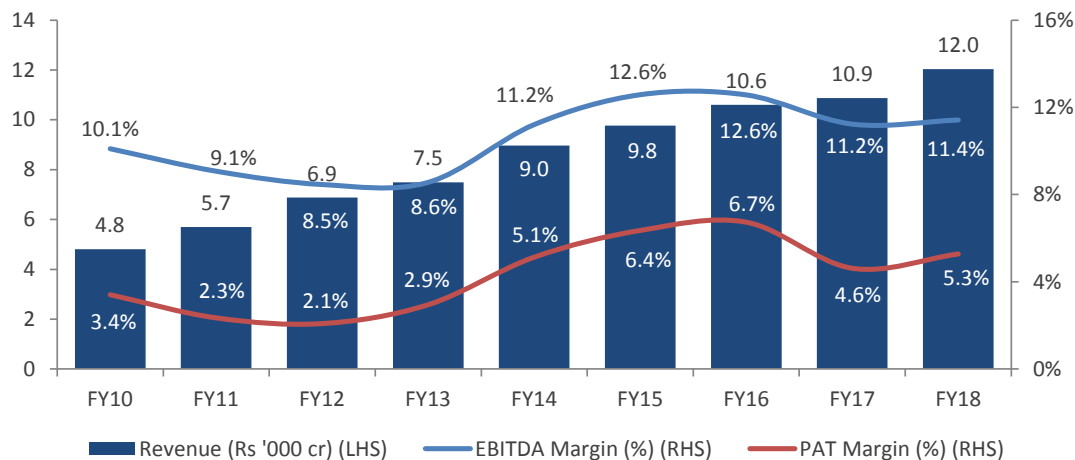
Chart 12: Trend in Share of Textiles Sector in Total Outstanding Bank Credit to Industries



Source: RBI

Financials

Chart 13: Trend in Revenues and Margins



Note: Dataset comprises of 31 companies in the readymade garments sub-industry
Source: AceEquity

Revenue grew from Rs. 4.8k cr in FY10 to Rs 12k cr in FY18 at a CAGR of 12.2%. Operating margins have also improved from 10.1% in FY10 to 11.4% in FY18, after dropping to 8.5% in FY12. Marginal improvement in sales was supported by volume sales post various rate changes under the tax regime during the last few quarters. After a slow beginning the consumer demand improved towards the end of the quarter. Exports however, remained under pressure due to a stronger rupee against the US dollar and weak import demand from China. Multiple headwinds including overcapacity in spindles, fabric and denim segments; lingering impact of demonetisation; high average cotton procurement cost, and goods and service tax (GST) implementation and its transitional difficulties affected the margins.

Another interesting factor boosting the PAT margin has been the other income component. The following table depicts the changes in other income and Exceptional Income/Expense as a percentage of profit after tax. In the earlier years, the other income and Exceptional Income/Expense accounted for a significant share of the profit after tax and in FY10; the industry profitability can be attributed due to other income, which stood at 155% of PAT in FY10. It share reduced in the subsequent years but remain high. The share reached its lowest in FY16 and has climbed up to reach 34% in FY18, which is at the same level as of FY15.

Table 5: Movement in Other Income and Exceptional Income/Expense (as a percentage of Profit after Tax)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Other Income and Excep. Inc/ Exp as a % of PAT	155%	67%	80%	65%	28%	34%	29%	35%	34%

Note: Dataset comprises of 31 companies in the readymade garments sub-industry
Source: AceEquity

Operating Costs

Table 6: Movement in Key Costs (as a percentage of Revenue)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Raw Material	47%	45%	48%	48%	51%	50%	48%	48%	47%
Power & Fuel Cost	1%	1%	1%	1%	1%	1%	1%	1%	1%
Employee Cost	9%	9%	9%	9%	10%	11%	11%	12%	13%
Other Manufacturing Expenses	18%	15%	13%	12%	15%	16%	15%	17%	14%
SG&A Costs	23%	24%	23%	24%	14%	14%	14%	15%	15%
Depreciation	3%	2%	2%	2%	1%	2%	2%	2%	2%
Interest	3%	3%	3%	3%	2%	2%	2%	2%	2%

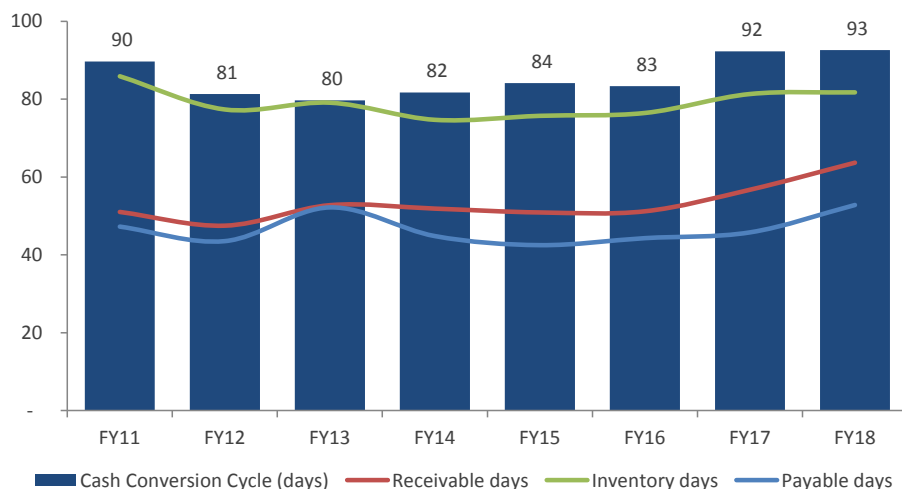
Note: Dataset comprises of 31 companies in the readymade garments sub-industry

Source: AceEquity

The Indian textile players mostly import refurbished looms (air jet, rapier, projectile, water jet) from abroad due to lower costs. The production efficiency of these looms is much lower than the new ones. It also has a high maintenance and operation costs. This also hampers the productivity of the apparel manufacturers in India. The RMG industry scores low on the parameter of key inputs. At around 50% of the revenue, raw material constitutes the largest share of the overall operating costs of apparel manufacturers. Most of the manufacturers in the industry are non-integrated with production of fibre intermediates. The key raw material used by the garment manufacturers is cloth made from either cotton or man-made fiber. As the availability of cotton in India is ample, India’s garment exports are skewed towards cotton. The cotton prices are regulated to a certain extent (i.e. with specific reference to Government driven Minimum Sale Price (MSP) and also move in tandem with the international prices.

Employee cost also forms substantial part in the overall cost structure as apparel industry is labour intensive. Employee costs have witnessed a steady increase from 9% in FY10 to 13% in FY18. Due to high degree of dependence on labour, the industry is plagued by unionization issues. Power & Fuel Cost, Depreciation and Interest costs have remained fairly stable for the above period. On account of the low investment requirement and absence of stringent licenses for setting up a garment unit, many small players have flocked into the industry making it highly fragmented and competitive thereby constraining profitability margins and leading to intense competition.

Chart 14: Trend in Working Capital

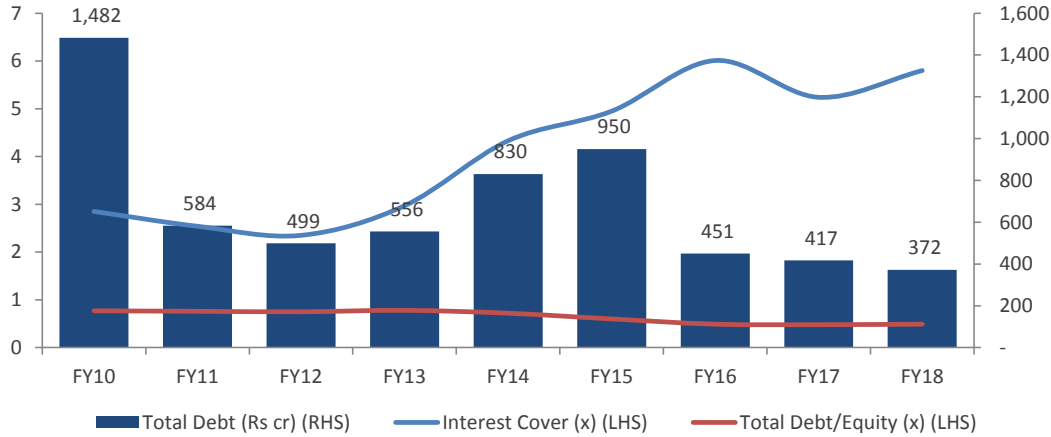


Note: Dataset comprises of 31 companies in the readymade garments sub-industry

Source: AceEquity

The gross working capital cycle has increased marginally from 125 days to 145 days with the numbers coming in at the highest in FY18. The payables days also increased; hence effect in the net working capital increase to 93 days in FY18 as compared to 90 days in FY11 was subdued as compared to the rise in the gross working capital cycle. The industry observed an increase in its debtor’s period from around 51 days in FY11 to around 64 days in FY18. The inventory holding period for the industry decreased marginally to around 82 days in FY18, which was around 86 days during FY11.

Chart 15: Trend in Debt, Leverage and Interest Coverage



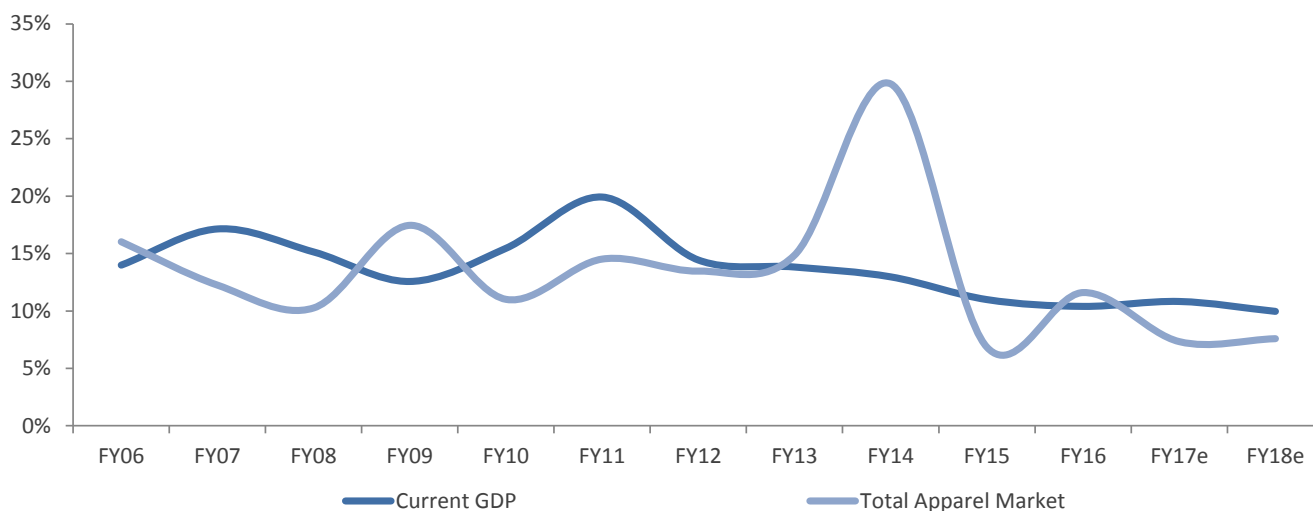
Note: Dataset comprises of 31 companies in the readymade garments sub-industry
Source: AceEquity

The debt equity ratio for apparel manufacturers has generally been on a reducing trend from 0.77 times in FY10 to 0.49 times in FY18 on account of industry profitability and deleveraging. The borrowings dropped sharply in FY11 and increased post FY12 on account expansion activities undertaken by major players. The increase in borrowing was supported by growth in net profits that has led to a constant debt equity ratio. Further, post FY15, the industry has deleveraged further with total borrowings reducing significantly.

Outlook

As textile production is positively correlated to GDP, reduction in economic uncertainties to revive growth in medium to long-term period. The apparel industry is largely consumption-driven and therefore, the economic cycles have a direct impact on the performance of the industry. High growth in the GDP leads to higher per capita income which in turn increases the purchasing power of the people. Higher purchasing power leads to increased spending, thereby driving the demand for apparels and home textiles while during the economic slowdown, the spending power and in turn consumption decreases.

Chart 16: Annual Growth Rate (in %): GDP at Current Prices vs Apparel Industry (Rs bn)



Source: CMIE, CARE Ratings

After successfully weathering the liquidity crises of FY08 and FY09, the economy again witnessed a slowdown beginning FY12 because of spiralling inflation and high lending rates. The domestic apparel industry in India grew at a CAGR of 13.8% from Rs.1,924 bn in FY10 to Rs. 5,408 bn in FY18. With the impending general elections, CARE expects short-term economic uncertainties to be volatile. Growth would revive only post the elections as the newly elected government would be in a better position to take decisions and take policy stands that would attract higher investment and fuel the rise in income levels and consequential consumption levels.

With the industry now stabilizing post the demonetization and the implementation of the goods and service tax (GST) regime, the demand from both domestic and international markets, has picked up in the last few months. Further, the demand drivers like growing private final consumption expenditure, growing population and changing fashion trends, etc, still make a compelling case for the healthy economic scenario in the future, subject to policy implementation and good governance by the government. CARE expects the domestic apparel market to grow by 10% - 12% driven by the growth in the Indian economy leading to the rise in disposable income, increased usage of plastic money leading to impulsive buying among the Indian consumers. Also, the increasing percentage of the youth in the Indian economy, rising mall culture would continue to drive growth of the apparel industry. Plethora of international and home-grown premium and super premium brands has led to a sharp increase in the per unit realisation which is expected drive the market size of the Indian apparel industry.

As a counterpoint to the growing domestic apparel industry, CARE estimates Indian apparel exports to remain subdued, growing marginally in rupee terms, and declining in US dollar terms. Earlier, the export market grew at a CAGR of 9.8% from Rs. 508 bn in FY10 to Rs. 1,076 bn in FY18; however FY18 exports were lower as compared to FY17. India continues to

experience headwinds in the form of intense competitive pressures from nations having a cost advantage over India, which seem to be constraining the overall momentum of the apparel export sector of India. Notwithstanding a depreciation in the rupee vis-a-vis the US dollar (which could increase rupee realizations), apparel exports would increase marginally in rupee terms and decline by 4%-5% in US dollar terms in FY19 and increase marginally in FY20.

Furthermore, given the fact that cotton and synthetic apparel exports comprise over 75% of apparel exports from India, CARE expects cotton (a crop where India is quite cost competitive) and synthetic apparels to continue to drive the growth in apparel exports. Additionally given the issues in the neighbouring countries coupled with abundant raw material availability, a well-integrated textile industry and good designing skills, if leveraged appropriately, could help India to consolidate and grow its position in the global apparel market. India needs to diversify its fibre base, currently dominated by the cotton in line with the global apparel consumption, which is well diversified within the cotton and MMF based apparels. To remain competitive and grow, India needs to increase its production of MMF based apparels. Going forward, steps taken to address the above challenges would be crucial for a creating and sustaining a broad-based recovery across the sector. This would also enable domestic apparel exporters to increase their share of the global apparel trade, and defend market share against other countries such as Vietnam and Bangladesh.

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