

MMF & RMG Update H1FY21: November 2020

Man-made filaments & fibres (MMF)

Production

During the first half of FY21, the output of man-made fibres declined by 29% to 706 thousand tonnes on a y-o-y basis. From Chart 1, it can be seen that the major fall in production was in the initial 3 months of FY21. The economy had witnessed lockdown during April-May 2020 due to the spread of Covid-19 which affected production.

Post announcement of unlock guidelines June 2020 onwards, the output of man-made fibres have seen an increase on sequential basis during H1FY21 though y-o-y fall in production continued till August 2020. The month of September 2020 however saw an improvement in production as it grew by 4.4% to 177 thousand tonnes backed by advancement of unlocking of economy and demand for MMF.

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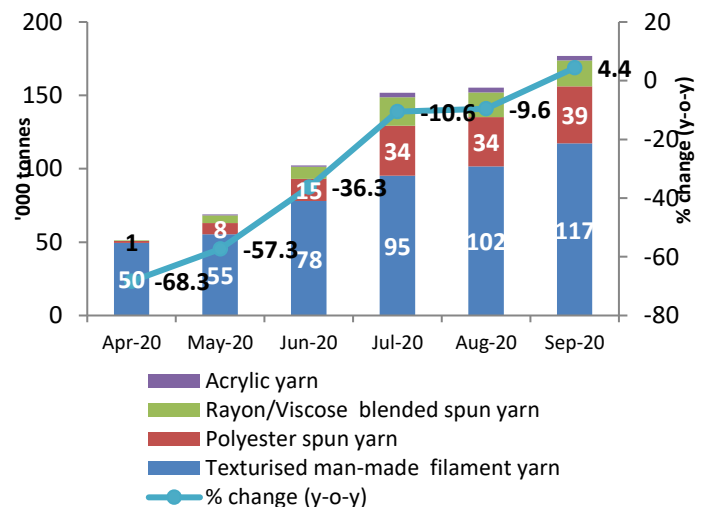
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Chart 1: Trend in MMF production H1FY21



Source: CMIE

It is to be noted that MMF here includes texturized man-made filament yarn which has a highest share of 70.4% during H1FY21 followed by polyester spun yarn (18.5%), rayon/viscose blended spun yarn (9.6%) and acrylic yarn (1.5%). Man-made fibre production primarily includes polyester and viscose. Polyester accounts for a majority of the total man-made fibre output close to 80% and viscose holds a share of about 15% in the total production.

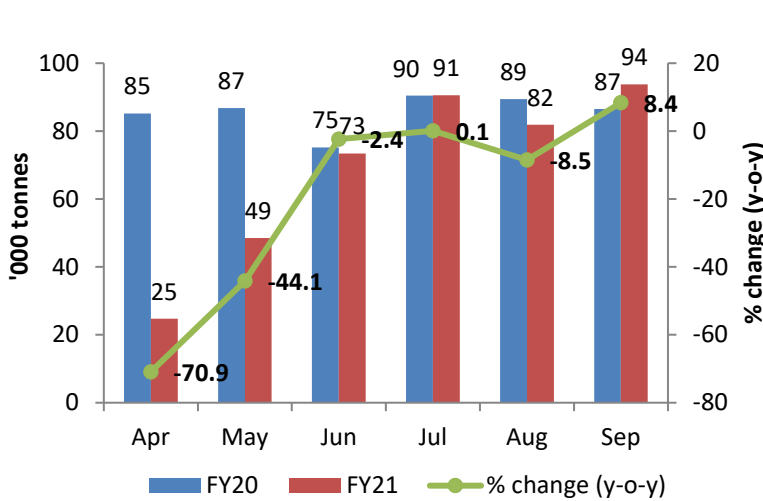
MMF exports

The Covid-19 disruptions not just impacted MMF production but also exports which is explained in the section below.

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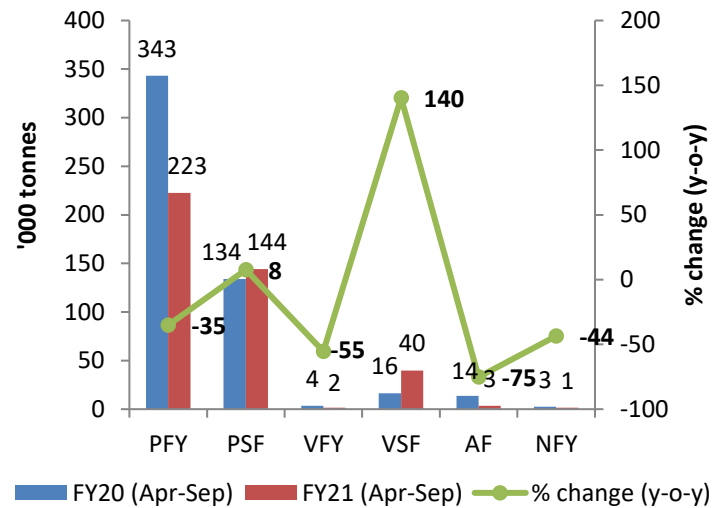
The exports of MMF followed the trend in production to an extent as the outbound shipments were hit hard in the month of April (-70.9%) and May (-44.1%) similar to that of MMF output during these months. Following this, the fall in exports narrowed down to 2.4% in the immediate month of June 2020 and increased marginally by 0.1% in July 2020. While exports declined by 8.5% in August 2020, the shipments increased by 8.4% in September 2020 (first time in FY21). Resultantly on a cumulative basis, MMF exports decreased by 19.6% to 413 thousand tonnes during the period H1FY21.

Chart 2: Trend in MMF exports H1FY21



Source: CMIE

Chart 3: Variety-wise exports of MMF H1FY21



Source: CMIE

Of the MMF exports made during H1FY21 mentioned in the report (refer Chart 3), Polyester Filament Yarn (PFY) accounted for the highest share of 53.9%, followed by Polyester Staple Fibre (PSF) (34.9%), Viscose Staple Fibre (VSF) (9.6%), Acrylic Fibre (AF) (0.8%) and Viscose Filament Yarn (VFY) and Nylon Filament Yarn (NFY) each accounting for 0.4% of the MMF exports. Among the 6 varieties mentioned, an increase in exports was seen only for PSF which grew by 8% y-o-y and VSF which surged by 140% during H1FY21. The effect of these growths however was negated due to fall in exports of the other 4 varieties of MMF primarily PFY (the largest variety) for which the outbound shipments decreased by 35%. The exports of the other 3 varieties VFY, AF and NFY fell in the range of 44%-75% in the first 6 months of FY21. The imports of these 6 varieties together fell by a higher 43.3% to 107 thousand tonnes compared to 19.6% decline in exports during H1FY21.

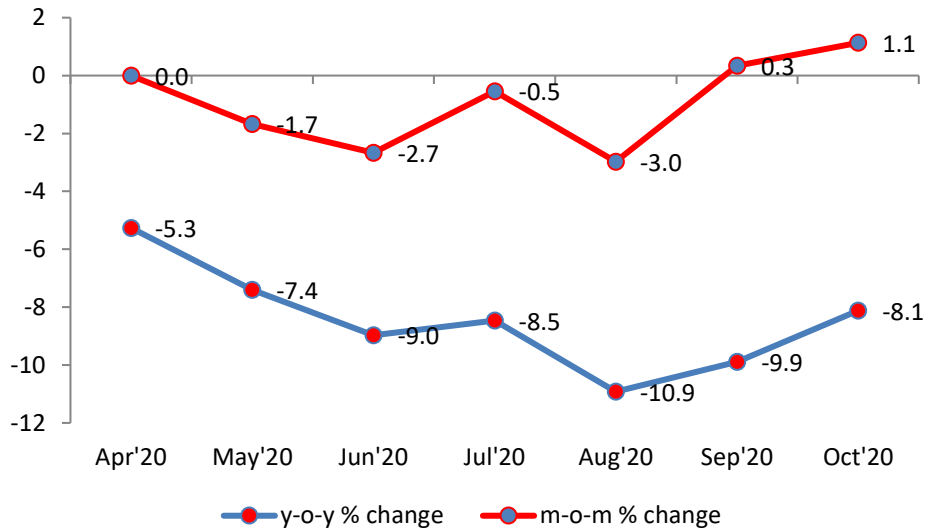
It is to be noted that MMF exports performed better compared to its production post lockdown (June 2020 onwards). While exports of MMF (6 varieties) fell by a marginal 0.6% y-o-y in June-September 2020, MMF production (4 varieties mentioned) declined by a faster 12.7% during this period.

MMF prices

The MMF prices remained subdued due to Covid-19 disruptions and announcement of lockdown to contain the spread of virus during H1FY21. From Chart 4 below, it can be seen that the Wholesale Price Index (WPI) of MMF fell consecutively on a y-o-y basis in each of the months during April-October 2020 and declined by 8.4% on a cumulative basis during this period.

Also, the MMF WPI has been weak on m-o-m basis since the start of FY21. While the index was flat in April 2020, it remained in negative territory during May-August 2020. The index however saw some sequential improvement in the month of September 2020 and October 2020 as it grew by 0.3% and 1.1%, respectively, backed by some recovery in MMF domestic and export demand and unlocking of Indian economy.

Chart 4: Movement in Wholesale Price Index (WPI) of MMF (in %)

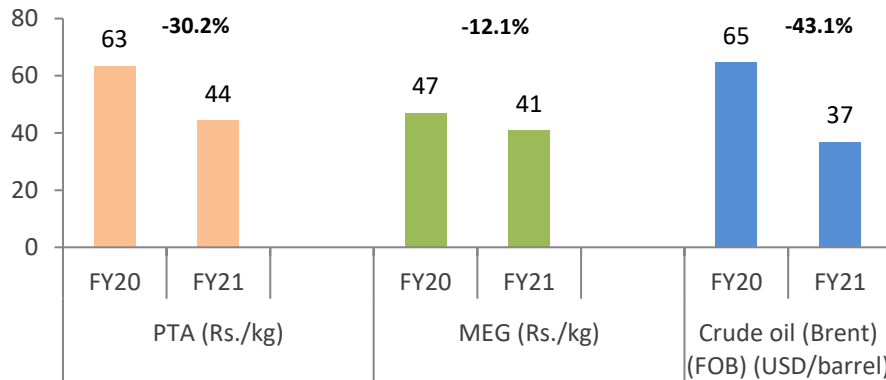


Source: Office of the Economic Advisor

PTA and MEG prices

Purified Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG) are the primary or key raw materials used to make polyester. Thus, the movements in their prices have an impact on polyester prices. The prices of these raw materials, on the other hand, are influenced by crude oil prices as PTA and MEG are crude oil derivatives.

Chart 5: PTA, MEG and crude oil prices (April-October)



Source: CMIE

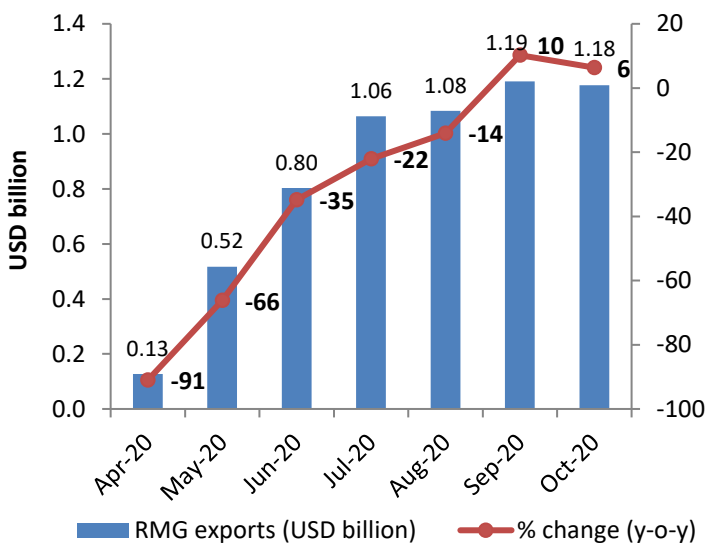
It can be seen from Chart 5 that the Brent crude oil prices declined by 43.1% y-o-y to USD 37 per barrel during April-October 2020 due to demand-supply disturbances caused by Covid-19. Also, lower demand for polyester on account of pandemic affected the prices of PTA and MEG which fell by 30.2% to Rs.44 per kg and by 12.1% to Rs.41 per kg in the first 7 months of FY21.

During April-October 2020, while the prices of PTA remained in a narrow range of Rs.43-Rs.45 per kg increasing only by 3.4% to Rs.45 per kg in October 2020 from Rs.43.5 per kg in April 2020, the prices of MEG hovered in a broader range of Rs.38-Rs.44 per kg rising 15.5% to Rs.44 per kg in October 2020 from Rs.38.1 per kg in April 2020.

Readymade garments (RMG)

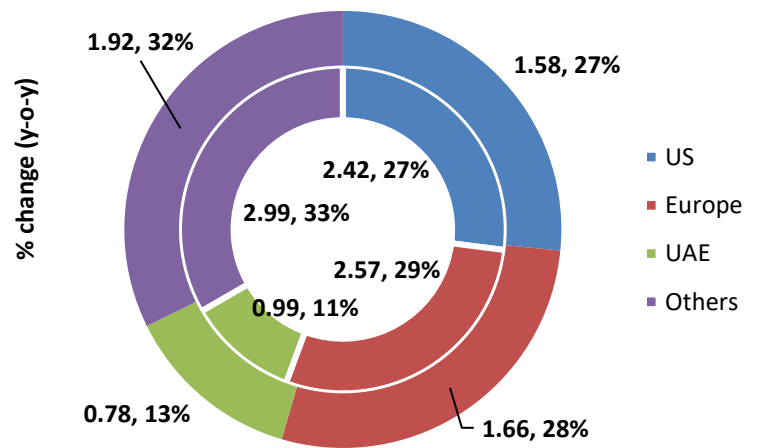
The Covid-19 distortions affected the global demand for RMG or apparels which, in turn, disturbed RMG outbound shipments from India to the export destinations. India’s RMG exports reduced sharply by 91% y-o-y in April 2020 and the decline in exports continued till the month of August 2020. The yearly fall in exports narrowed sequentially in each of the months during May-August 2020 and also exports improved on m-o-m basis during H1FY21. It can be seen from Chart 6 that RMG exports witnessed recovery on y-o-y basis for two months in a row as it grew by 10% to USD 1.19 billion in September 2020 and increased by 6% to USD 1.18 billion in October 2020. Cumulatively, RMG exports fell by 33.9% to USD 5.9 billion during the period April-October 2020.

Chart 6: Trend in RMG exports (Apr-Oct 20)



Source: CMIE

Chart 7: Market-wise exports of RMG (USD bn) (Apr-Oct)



Source: CMIE

Note: Inner circle represents exports for (Apr-Oct) FY20 and outer circle represents exports for (Apr-Oct) FY21

Note: Europe includes data on UK, Germany, France, Spain, Netherlands and Denmark

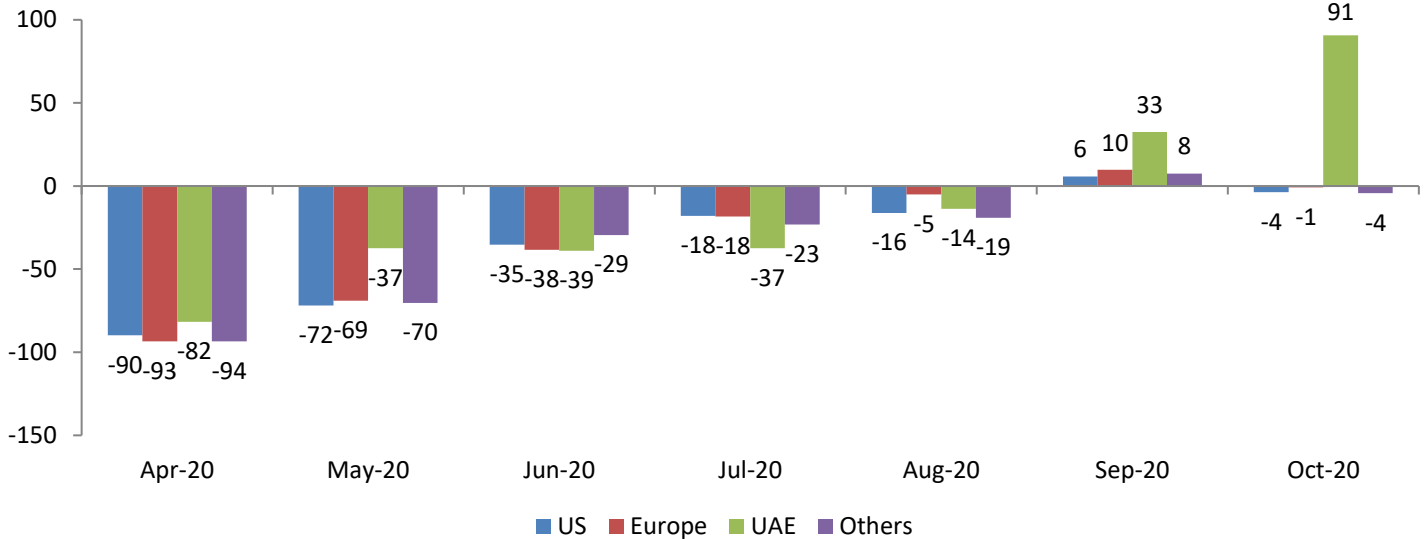
RMG exports from India are broadly classified here into 4 markets (refer Chart 7 above) US, Europe (includes data on UK, Germany, France, Spain, Netherlands and Denmark), UAE and other markets. The outbound shipments have declined in each of these 4 markets during April-October 2020 on a y-o-y basis. While exports to US, Europe and other markets decreased by 35%-36%, shipments to UAE fell at a slower pace of 20.8%. Resultantly, share of Europe and other markets each contracted by 1% to 28% and 32%, respectively, and share of US market remained the same at 27%. The share of UAE in India’s RMG exports, on the other hand, increased by 2% to 13% in the first 7 months of FY21 on a y-o-y basis.

The primary reason that expanded the share of UAE in RMG exports is the growth in exports by India to UAE in the months of September 2020 and October 2020. The outbound shipments to UAE were up by 32.6% to USD 148.5 million in September 2020 and increased by another impressive 90.6% to USD 210.8 million in October 2020 (refer Chart 8 below).

It is to be noted that while exports from all the 4 markets had increased in September 2020, export growth was the highest for UAE at 32.6% and shipments to the other 3 markets were up in the range of 6%-10%. In October 2020, rise in exports

however was seen only in UAE (by strong 91%) as shipments to the other 3 markets declined by 1% to 4%. In fact, the total 6.3% growth in Indian RMG exports in the month of October 2020 was only because of the 91% rise in exports to UAE market.

Chart 8: Market and month-wise y-o-y % change in RMG exports by India (Apr-Oct 2020)



Source: CMIE

From the above discussion, it can be seen that while the scenario for MMF and RMG industries have witnessed improvement on sequential basis which is aiding them to perform around normal levels, challenges continue to stay as situations remain affected due to Covid-19 which is likely to impact the performance of these industries on a yearly basis.

Concluding remarks

- MMF exports performed better compared to its production post lockdown (June 2020 onwards) as exports of MMF (6 varieties) fell by a marginal 0.6% y-o-y in June-September 2020, MMF production (4 varieties mentioned) declined by a faster 12.7% during this period.
- RMG exports had declined to all the 4 markets (a. US, b. Europe – UK, Germany, France, Spain, Netherlands and Denmark, c. UAE and d. other markets) in each of the months during April-August 2020 on a y-o-y basis. Following this, shipments to all the 4 markets increased in September 2020, export growth was the highest for UAE at 32.6% while shipments to the other 3 markets increased in the range of 6%-10%. In October 2020, rise in exports however was seen only in UAE (by strong 91%) as shipments to the other 3 markets declined by 1% to 4%. In fact, the total 6.3% growth in Indian RMG exports in the month of October 2020 was only because of the 91% rise in exports to UAE market.
- The scenario for MMF and RMG industries have witnessed improvement on sequential basis which is aiding them to perform around normal levels, challenges however continue to stay as situations remain affected due to Covid-19 which is likely to impact the performance of these industries on a yearly basis.

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