

# Low Exports, High Cotton Costs Hurt Cotton Spinners; Margins to Suffer

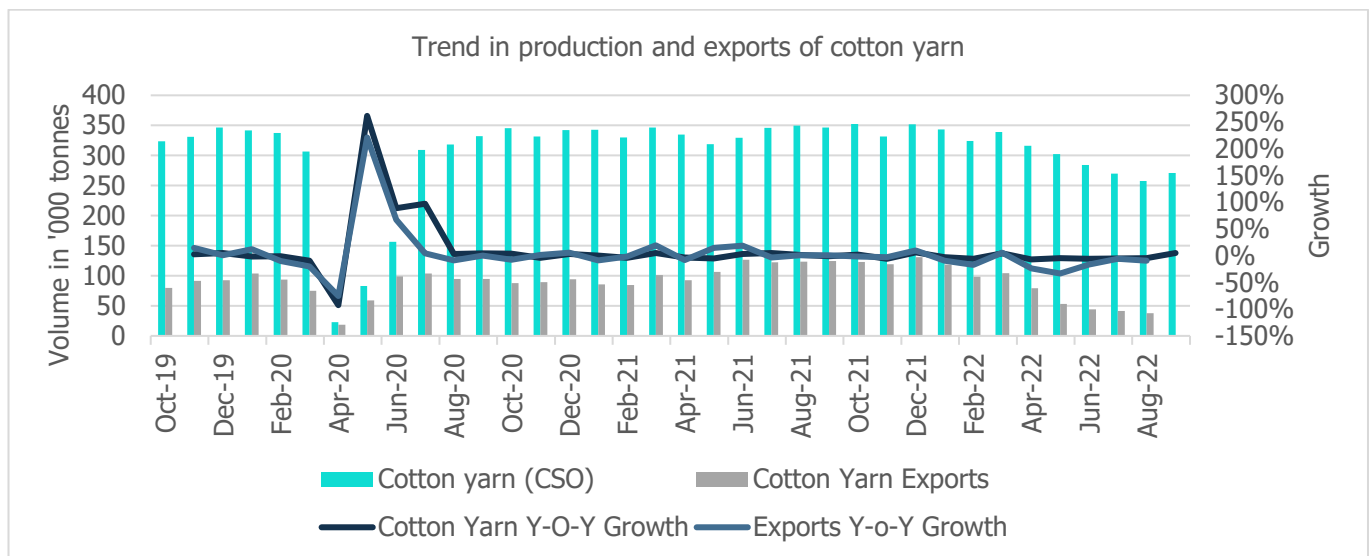
December 8, 2022 | Ratings

## Synopsis

- Cotton yarn exports declined by 59% in H1FY23 to 2.89 lakh tonne (6.95 lakh tonne in H1FY22) and are expected to record a degrowth of 28-30% in FY23 due to high cotton prices and weakening export demand.
- Though raw cotton prices cooled down to Rs 65,000 per candy in October as against a peak price of Rs 1.10 lakh per candy, the rates are still higher than pre-Covid levels.
- Margins of cotton spinners are expected to fall 5-7% due to the weakening of demand and continued high prices of raw cotton. The decline in margins, however, will be restricted by the expected higher cotton production in the new cotton season of 2022-23, which could result in softening of cotton prices.

## Production and Export

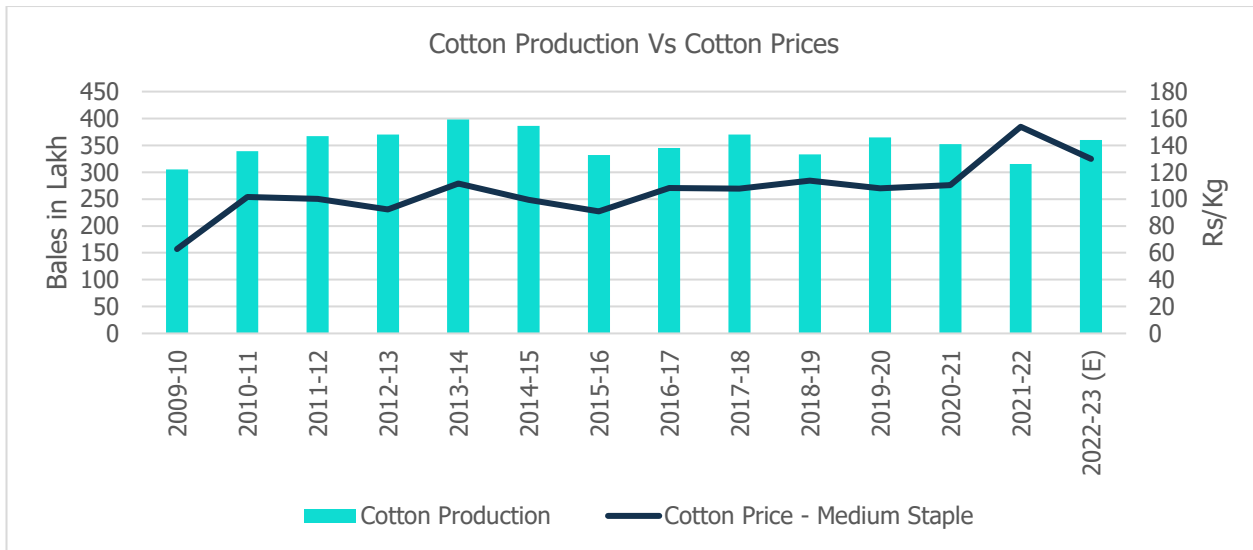
Second only to China, India produces around 3.5 million tonne of cotton yarn per annum. Of this, 60-65% is consumed domestically, while the rest is exported. In H1FY23, cotton yarn exports declined sharply by 59%, impacted by high cotton prices (cotton season 2021-22 recorded lower production) and a slowdown in demand with the global recessionary trend.



Source: CMIE & CareEdge

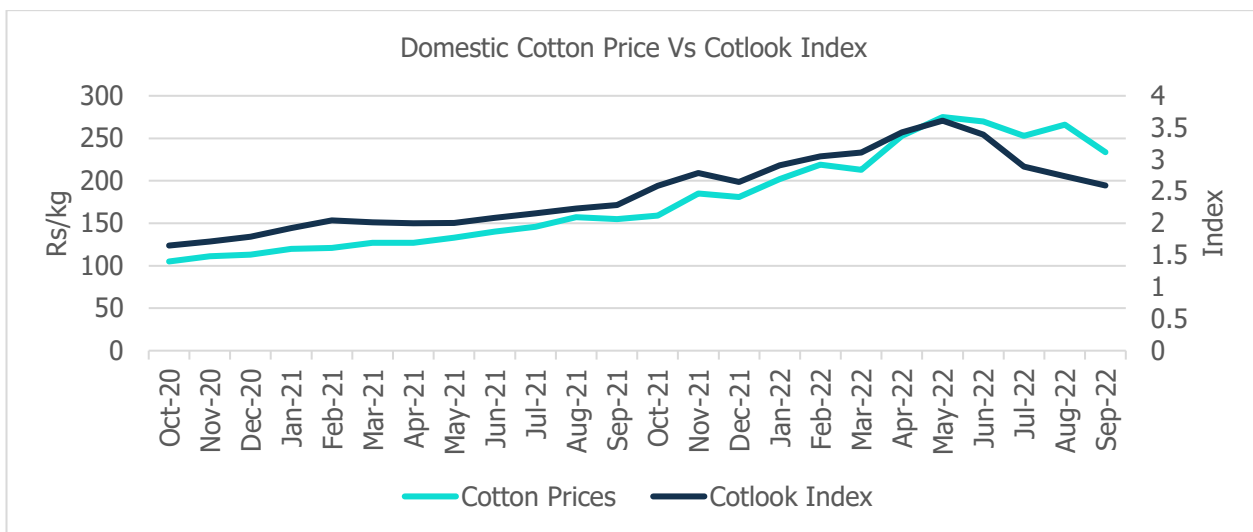
## Cotton Production & Price

Cotton production in India has reduced from 352 lakh bales in 2020-21 to 315 lakh bales in Cotton Season (CS) 2021-22. The domestic price of cotton increased by 39% from ₹110 per kg (medium staple) in CS 2020-21 to ₹154 per kg in CS 2021-22. After recording a peak cotton price of more than ₹1.10 lakh per candy during FY22, the prices have started to moderate and have corrected to ₹65,000 per candy in October 2022. CareEdge believes that cotton prices will moderate further with the expectation of higher cotton arrival in CS 2022-2023, although it will remain higher than the pre-Covid levels.



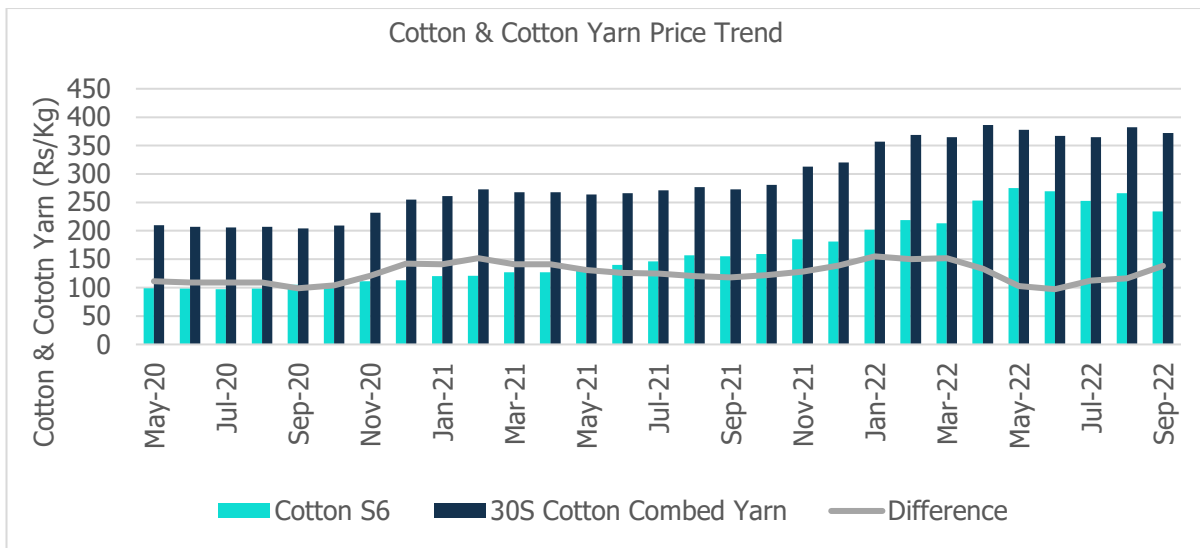
Source: CMIE and CareEdge

Low cotton production of 315 lakh bales in CS 2021-22 pushed prices to ₹154 per kg (medium staple) from ₹108 per kg in CS 2019-20. Furthermore, cotton prices in India remained 20-25% higher than international prices, resulting in a decline in competitiveness compared to other countries like Vietnam and China.



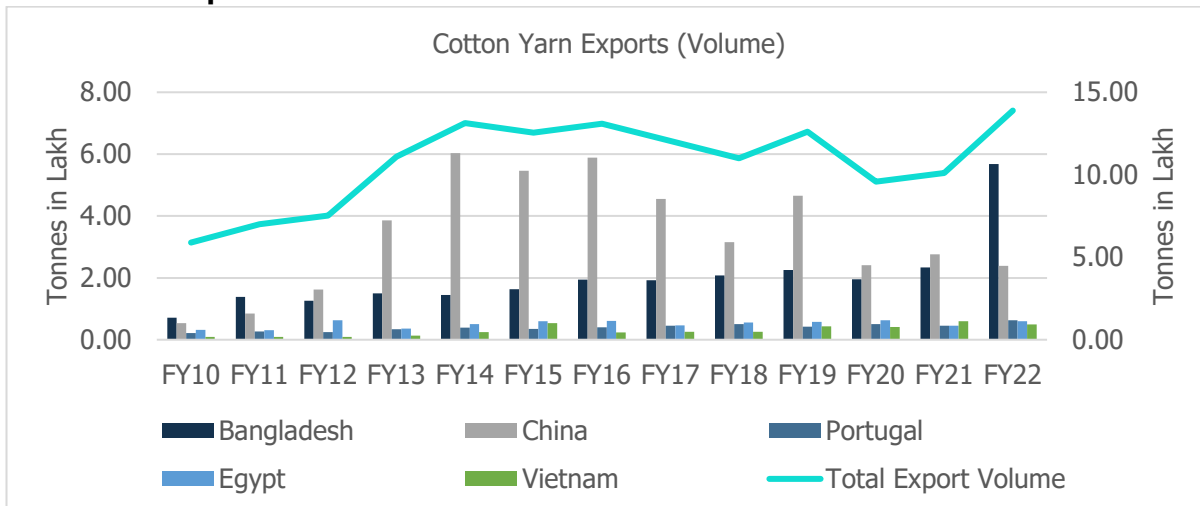
Source: CMIE, Cotlook, and CareEdge

FY22 and Q1FY23 recorded a significant increase in cotton prices month-on-month (m-o-m) up to May 2022, post which there was some moderation, given the decline in demand, especially in exports. A similar trend was seen in cotton yarn prices, which increased from ₹210 per kg in May 2020 to ₹386 per kg in April 2022 and then started reducing gradually.



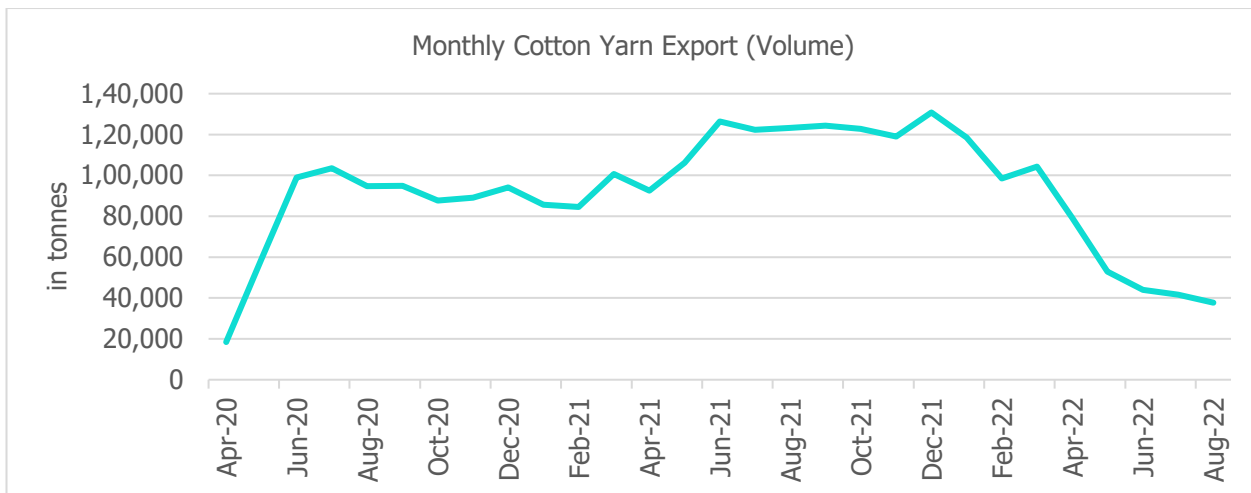
Source: CMIE and CareEdge

**Cotton Yarn Exports**



Source: CMIE and CareEdge

Country-wise, Bangladesh is the highest export contributor for India’s cotton yarn, while the share from China has been on a declining trend. China’s cotton yarn import share has shifted to Vietnam over the years. India continues to face duty challenges as compared with Bangladesh, Pakistan, and Vietnam, thus lagging in cotton and cotton yarn exports. Countries like Bangladesh and Vietnam continue to enjoy duty-free access in China, the largest cotton yarn importer globally. .



Source: CMIE and CareEdge

India’s cotton yarn exports during H1FY23 have been hit, as domestic cotton prices remained high, impacting India’s competitiveness globally. Exports in cotton yarn witnessed a downward trend from January 2022 onwards, further aggravated by a slowdown in global demand. Furthermore, H2FY23 is expected to remain muted for cotton yarn exporters due to the weak demand, resulting in lower capacity utilisation and higher cotton prices as compared to pre-covid levels.

**CareEdge View**

“CareEdge expects 28-30% degrowth in the export volume of cotton yarn in FY23, impacted by high prices and global headwinds. The margins of spinners are expected to decline by 5-7% due to lower capacity utilisation and continued high raw cotton prices. The decline in margins, however, will be restricted by higher cotton production in the new cotton season 2022-23, estimated at 360 lakh bales, and further correction in cotton prices,” said Arti Roy, Associate Director, CareEdge.

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