MMF & RMG Update: May 2021

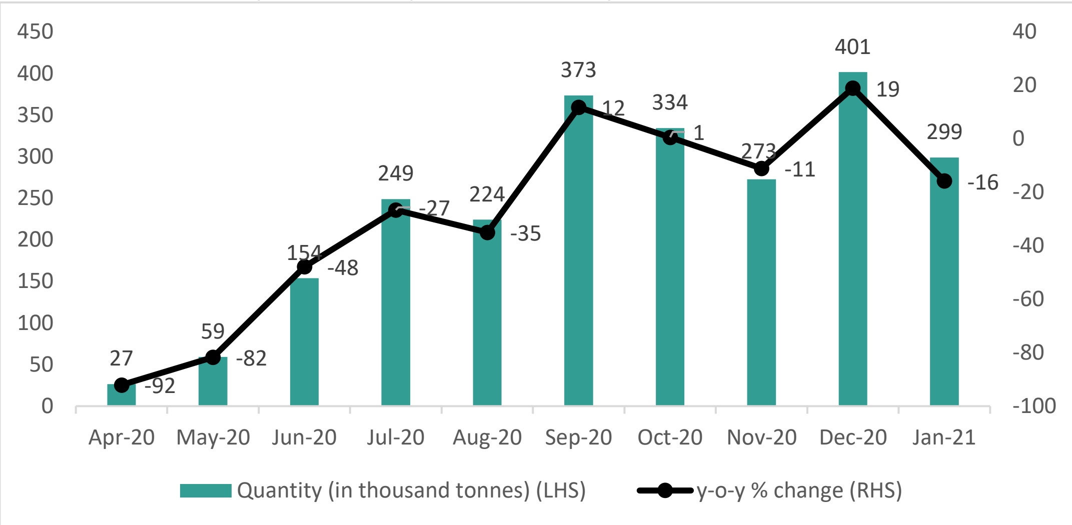
May 18, 2021 I Industry Research

Man-made filaments & fibres (MMF)/ Synthetic fibres

Production

On a cumulative basis, MMF output declined by 27.6% y-o-y to 2.4 million tonnes (2,393 thousand tonnes) during the period April 2020 – January 2021. The fall in output was mainly due to average decrease of 56.7% in production during the first 5 months of FY21 because of Covid-19 disruptions. In the following months, the MMF output however increased y-o-y for 3 out of 5 months during September 2020 – January 2021 in the range of 1%-19%, which in turn, restricted the overall fall in output during the first 10 months of FY21. The growth in production was mainly backed by recovery in demand for MMF. Also, many people stayed indoors for most of the time due to pandemic on account of work from home norm, virtual education culture among others which supported the consumption of athleisure wear made from man-made fibres or synthetic fibres.

Chart 1: Trend in MMF production (April 2020 – January 2021)



Source: Department of Chemicals & Petrochemicals

Note: MMF/ synthetic fibres here includes Polyester Filament Yarn (PFY), Polyester Staple Fibre (PSF), Nylon Industrial Yarn (NIY), Acrylic Fibre (AF), Polyester Staple Fiberfil (PSFF), Nylon Filament Yarn (NFY), Polypropylene Staple Fibre, Polyester Industrial Yarn (PIY), Elastomeric/ Spandex Filament Yarn and Polypropylene Filament Yarn (PPFY)

The MMF output on a combined basis includes polyester, viscose and other fibres with significant quantity coming from polyester accounting for about 75%-80% of the total MMF production followed by viscose and other fibres contributing around 15%-17% and 5%-6%, respectively, in the overall MMF output.

MMF trade

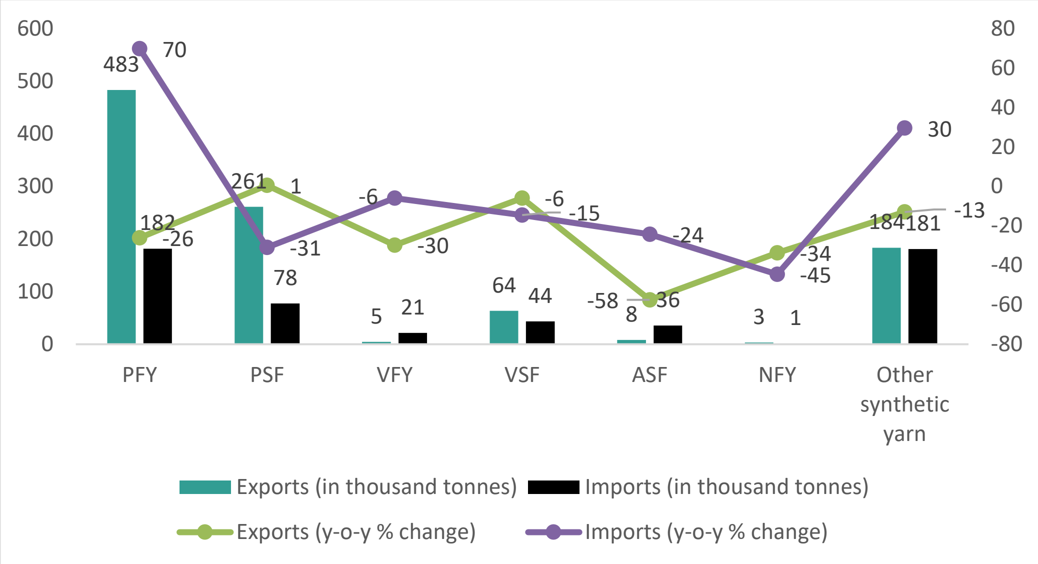
India remained net exporter of MMF during the period April 2020 – February 2021. However it is to be noted that even while MMF exports declined by 17.5% to 1,007 thousand tonnes (1 million tonnes), imports of MMF increased by 12.5% to 542 thousand tonnes (0.54 million tonnes) in the 11 month period of FY21.

The fall in MMF outbound shipments was spread across all the varieties as it decreased in the range of 6%-58% (refer Chart 2 below) except for PSF variety where exports grew by a marginal 0.5% during April 2020 – February 2021. The shipments were affected mainly due to Covid-19 disturbances. The overall exports are estimated to have accounted for about 30% of the total MMF production with total polyester accounting for significant amount of exports PFY (48%), PSF (25.9%) followed by other synthetic yarn with a contribution of 18.2% in overall exports.

On imports front, all the MMF varieties posted a decline in the range of 6%-45% except for PFY and other synthetic yarn where the inbound shipments increased by 69.9% and 29.6%, respectively. This, in turn, increased overall MMF imports during the period. A 127.2% and 121.7% surge in imports of PFY and other synthetic yarn from China were primarily responsible for the overall growth in inbound shipments of these varieties. Yarn from China is believed to have come at a cheaper price. Of the total MMF imported by India, polyester combined accounted for the largest share: PFY (33.5%)

and PSF (14.3%). Following this, other synthetic yarn held a share of 33.4% in overall MMF imports during April 2020 – February 2021.

Chart 2: Trend in MMF exports and imports (April 2020 - February 2021)

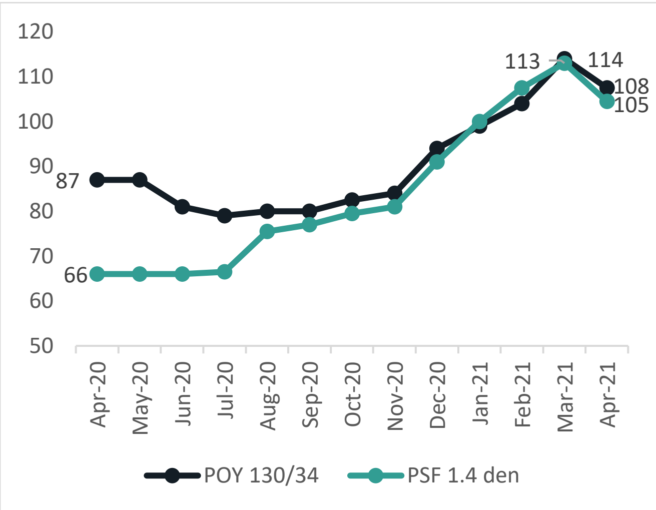


Source: CMIE

Trend in polyester and feedstock prices

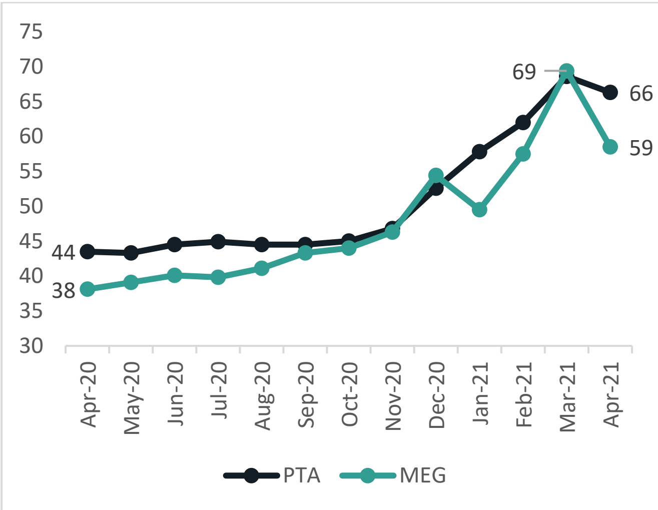
The price of both the polyester varieties POY 130/34 and PSF 1.4 den witnessed improvement on m-o-m basis for 6 straight months during the period October 2020 – March 2021. The price of POY130/34 and PSF 1.4 den varieties increased by a strong 38%-42% from Rs.80 – Rs.83 per kg in October 2020 to Rs.113 – Rs.114 per kg in March 2021. This was on account of pick-up in demand backed by unlocking of domestic and international markets. Also, an increase in feedstock (PTA and MEG) prices led to the growth in polyester prices as the input prices also rose on sequential basis during the 6 months period in a row. The PTA and MEG prices increased by 52%-58% from Rs.44-45 per kg in October 2020 to Rs.69 per kg for both the inputs in March 2021 except for January 2021 where MEG prices decreased by 9% on m-o-m basis.

Chart 3: Trend in polyester prices (Rs./kg)



Source: Textile Excellence

Chart 4: Trend in PTA and MEG prices (Rs./kg)



Source: CMIE

After witnessing improvement during the 6 months period October 2020 – March 2021, prices of both the polyester varieties however saw a sequential fall of 5%-8% in the month of April 2021 and decreased further by 4%-8% to average at Rs.99 per kg - Rs.100 per kg up to 12 May 2021. This was due to imposition of lockdowns including partial, complete and weekend lockdowns, night curfew and other restrictions across various states due to second wave of Covid-19 which affected the movement of people and, in turn, consumption of polyester (textile) in the domestic market. Similarly, the input prices witnessed decline in the month of April 2021 where the price of PTA decreased by 3.4% to Rs.66 per kg and that of MEG fell by a higher 15.7% to Rs.59 per kg on m-o-m basis.

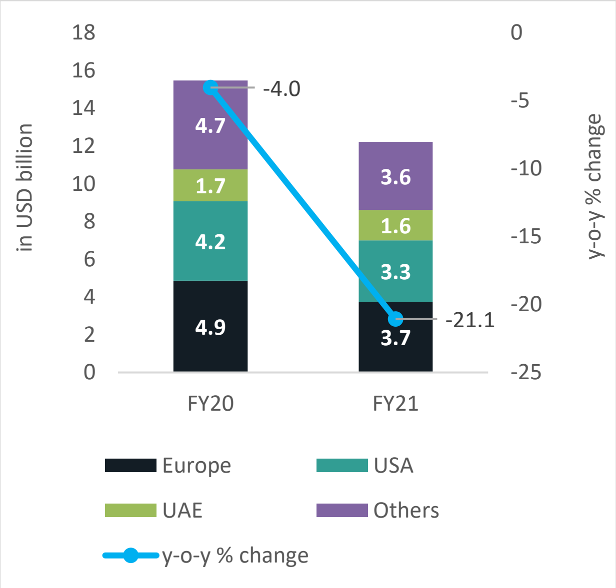
The slowdown in domestic polyester price will persist in the current quarter of Q1FY22 and is likely to carry on in the initial part of Q2FY22 as the lockdown conditions across multiple states impacts polyester demand from downstream consumers all-over India. Also, the prices are unlikely to pick up in domestic market unless lockdown restrictions are lifted either completely or partially. This however is possible only when Covid-19 cases recede and vaccination drive gathers pace in India amid fear of second wave of pandemic.

Readymade Garments (RMG)

The RMG or apparel exports on a cumulative basis declined by 21.1% y-o-y to USD 12.2 billion during FY21 led by Covid-19 pandemic disruptions. The fall in RMG outbound shipments was seen across all the markets (refer Chart 5 below) with exports to the top 2 markets (Europe and the USA) decreasing by about 23% each to USD 3.7 billion and USD 3.3 billion, respectively. The Europe market here includes only UK, Germany, France, Spain, Netherlands, Italy and Denmark.

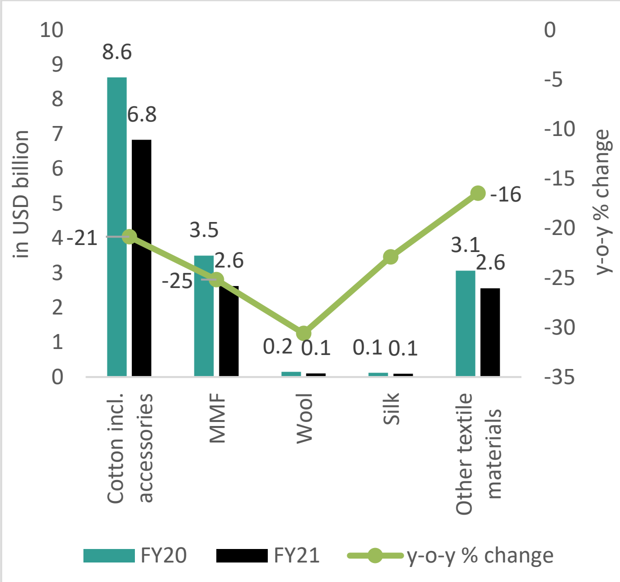
Also, shipments to other markets fell by a similar 23% to USD 3.6 billion while exports to UAE (the third largest RMG export market for India) dropped by a lower 4.8% to USD 1.6 billion. The slower fall in shipments to UAE market was backed by strong increase in exports to UAE in each of the months during latter part of FY21 (September 2020 onwards) except for December 2020 and January 2021 where exports fell by about 10% in each of these two months.

Chart 5: Country-wise exports of RMG during FY21



Source: CMIE

Chart 6: Segment-wise exports of RMG during FY21



Source: CMIE

The RMG exports from India comprises cotton incl. accessories, man-made fibres, other textile materials, wool and silk with cotton incl. accessories accounting for lion's share and wool and silk contributing minimal to the RMG exports. During FY21, the share of cotton incl. accessories in total RMG outbound shipments remained constant at 56% y-o-y and its exports fell by 20.8% to USD 6.8 billion while the contribution of man-made fibres contracted by about 1% to 21% as its shipments decreased by a faster 25.2%. The exports of third major segment other textile materials however declined by a slower 16.5% compared to the other two major segments and thus its share expanded by around 1% to 21% during FY21.

India is largely dependent on cotton incl. accessories for RMG exports which is contrary to the trend in international textiles market where consumption of MMF textiles have a share of about 70% followed by natural fibres. Subsequently, RMG exports from India have remained almost stagnant and have been in the range of USD 16 billion - USD 17.5 billion during the period FY15 to FY19. The RMG exports however fell below this range in FY20 by 4% to USD 15.5 billion due to delayed disbursements of funds under various domestic schemes and tough competition from competitors like Bangladesh and Vietnam. In FY21, the outbound shipments deteriorated further to USD 12.2 billion in FY21 (fall of 21.1% y-o-y) led by Covid-19 disruptions.

To reduce India's dependency on cotton incl. accessories and to make RMG exports more broad-based, the government announced Production Linked Incentive (PLI) scheme in November 2020 for MMF segment and technical textiles for Rs. 10,683 crore which will be spread over a period of 5 years. Besides, the government also proposed a scheme of Mega Investment Textiles Parks (MITRA) in Union Budget 2021-22 to enable the textile industry to become globally competitive, attract large investments, boost employment generation and exports. The main features of this proposal involves creating world class infrastructure with plug and play facilities to encourage exports and includes 7 textile parks that will be established over 3 years. These schemes will augur well for the textiles sector as it will enable large scale manufacturing facilities for the industry, which will facilitate cost-efficiency to the players. However, the positive impact of these schemes will be seen only in the long-run with its effective implementation.

Apart from these schemes to enhance manufacturing capabilities and boost exports, the government decided to extend the benefit of the Scheme for Remission of Duties and Taxes on Exported Products (RoDTEP) to all export goods with effect from 1st January 2021. Earlier, the Rebate of State and Central Taxes and Levies scheme (RoSCTL) was in place until such time it was merged with RoDTEP. However, so far the government has not come up with refund rates under RoDTEP for various sectors or product categories which is creating uncertainty among various exporters including apparel exporters.

Concluding remarks

- The slowdown in domestic polyester price will persist in the current quarter of Q1FY22 and is likely to carry on in the initial part of Q2FY22 as the lockdown conditions across multiple states impacts polyester demand from downstream consumers all-over India. Also, the prices are unlikely to pick up in domestic market unless lockdown restrictions are lifted either completely or partially. This however is possible only when Covid-19 cases recede and vaccination drive gathers pace in India amid fear of second wave of pandemic.
- The PLI scheme for MMF and home textile segments and MITRA scheme will augur well for the textiles sector as it will enable large scale manufacturing facilities for the industry, which will facilitate cost-efficiency to the players. However, the positive impact of these schemes will be seen only in the long-run with its effective implementation.
- Even while the RoDTEP scheme comes into effect from 1st January 2021, no refund rates under this scheme have been announced by the government which is creating uncertainty among apparel exporters.

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