Textiles Update: April 2020

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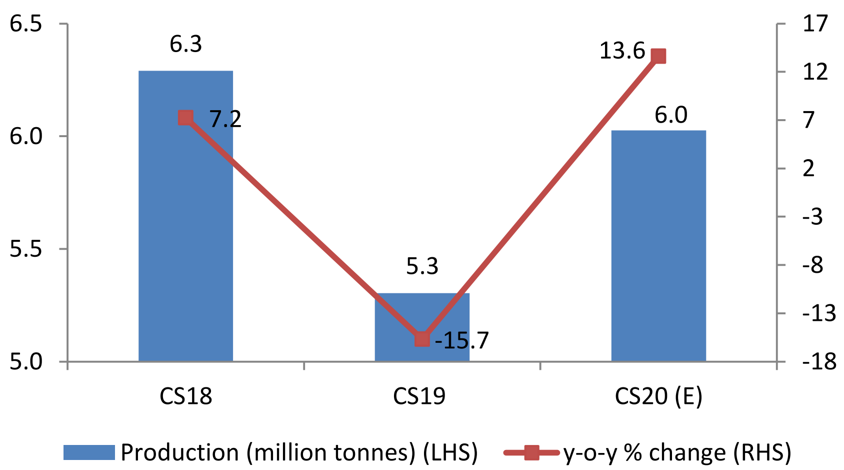
This report updates on the current scenario of the Indian textiles industry highlighting the aspects of production, trade and prices. The segments covered in the report are: Cotton, Cotton Yarn, Blended & 100% Non-Cotton Yarn, Man-Made Fibre and Readymade Garments. In addition to this, we also discuss the potential impact of Covid-19 on the Indian textiles industry.

Cotton production

Cotton output in India is estimated to grow by 13.6% y-o-y to 6 million tonnes during the cotton season (CS) 2019-20 on account of higher yields backed by favourable monsoon conditions. Also, an increase in MSP for CS20 is believed to have aided its output. The MSP was raised by 2% to Rs. 5,255 per quintal and by 1.8% to Rs. 5,550 per quintal for medium staple and long staple variety, respectively, for CS20. During the last cotton season (CS19), the MSP was hiked in the range of 26%-28% to support farmer's income.

Chart 1: Trend in cotton production



Source: Office of Textile Commissioner, Cotton Association of India
Note: E - Estimate

The cotton production had declined by 15.7% to 5.3 million tonnes in CS19 due to unfavourable monsoon and pink bollworm attacks in Maharashtra and Karnataka.

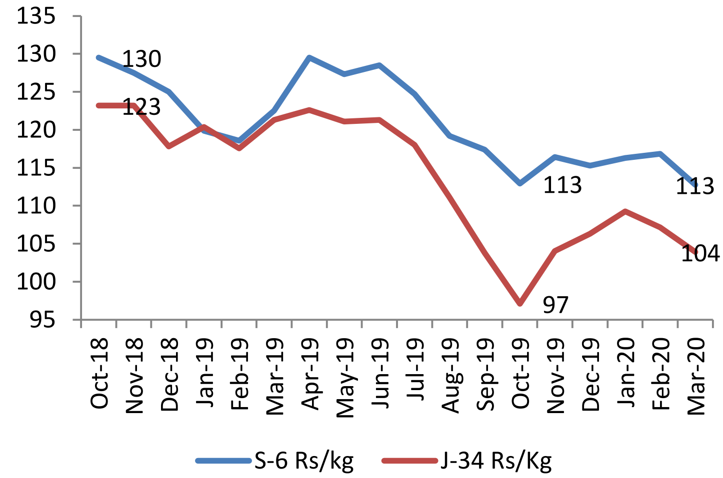
Trend in cotton prices

The domestic cotton prices S-6 and J-34 on a y-o-y basis declined by 7.1% to Rs.115 per kg and by 13.2% to Rs.105 per kg, respectively, during the first 6 months (October 2019-March 2020) of CS20. In October 2018, the S-6 and J-34 prices averaged at Rs.130 per kg and Rs.123 per kg, respectively. After a year, the prices fell to their lowest level in October

2019 as shown in the chart 2 below. During the month, the prices declined by 12.8% to Rs.113 (S-6) and 21.2% to Rs.97 (J-34). This was mainly on account of a fall in international cotton prices and weak export scenario. The international prices had declined to their lowest level in August 2019 for the period shown in the chart 3 below to USD 1.6 per kg from USD 1.9 per kg, fall of 18.3%. Estimates of higher global production amid stable consumption, US-China trade war that found no major breakthrough in July 2019 meeting resulted in the price fall. Post this, the international prices improved on a m-o-m basis till January 2019 to average at USD 1.74 per kg which declined to USD 1.69 per kg in February 2019 due to Covid-19 challenges.

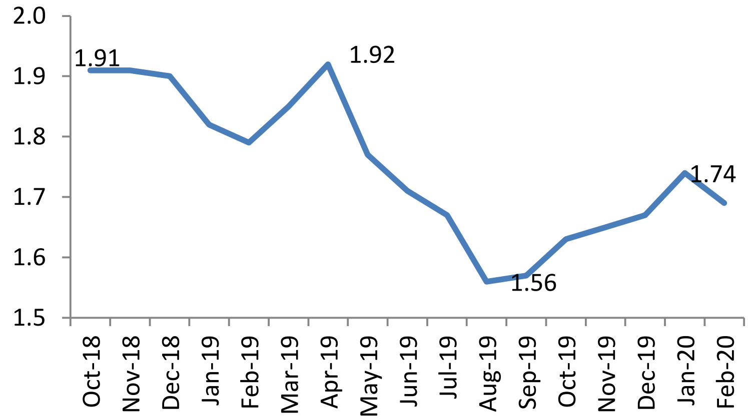
Similarly, the price of J-34 variety fell to Rs.104 per kg in March 2020 from Rs.109 per kg in January 2020 and the price of S-6 variety declined to Rs.113 in March 2020 from Rs.116 per kg in January 2020. The domestic prices had remained firm during November 2019-January 2020.

Chart 2: Domestic cotton prices (Rs./kg)



Source: Ministry of Textiles, Textile Excellence, CMIE

Chart 3: Cotlook A index (USD/kg)



Source: Indexmundi

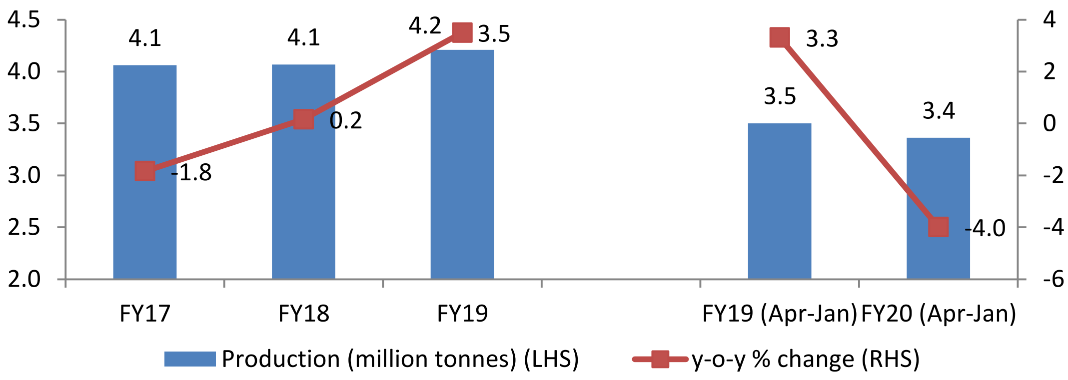
The exports of raw cotton incl. waste declined by a drastic 66.4% to 2.2 lakh tonnes during April-November 2019. This was mainly due to uncompetitive domestic cotton prices compared to the international cotton prices. Lower cotton production in India during CS19 supported the higher domestic prices. Imports of raw cotton incl. waste on the other hand more than doubled to 6.5 lakh tonnes in the first 8 months of FY20.

Cotton yarn

The cotton yarn output remained in the range of 4.1 million tonnes to 4.2 million tonnes during FY17 to FY19. The production which was stable during FY18 increased in FY19. During the first ten months (April-January) of FY20 cotton yarn output declined by 4% to 3.4 million tonnes.

Weak cotton yarn export demand during FY20 affected India’s output. Exports account for around 28% of the total cotton yarn production and thus movement in exports have an impact on its output and prices which is discussed going ahead.

Chart 4: Trend in cotton yarn production



Source: CMIE

Weak export scenario can be seen in the chart 5 below where we see that cotton yarn outbound shipments from India declined by a sharp 23.8% to 0.8 million tonnes during April 2019-January 2020 from 1 million tonne in the same period last year. A drastic 42.6% fall in cotton yarn exports to China (accounting for about 35% of the total cotton yarn exports) affected the overall outbound shipments. In addition to this, exports from India to rest of the world also fell by 13.6%.

Higher cotton (raw material) prices in India due to increase in MSP has raised the cost of production for spinners making it difficult for them to compete in the international market thus affecting exports. Also, lower cotton production in India during CS19 supported higher domestic prices. In addition to this, India has a price drawback in exporting cotton yarn to China as competitors like Vietnam, Pakistan and Indonesia enjoy duty free entry to Chinese cotton yarn market. All these factors impacted the export unit realisation of India's cotton yarn as the realisations declined by 6.9% y-o-y to Rs.204 per kg during the period April 2019-January 2020 and the average domestic cotton hank yarn prices remained almost stable at Rs.268 per kg compared to the same period last year.

Chart 5: Trend in cotton yarn exports from India

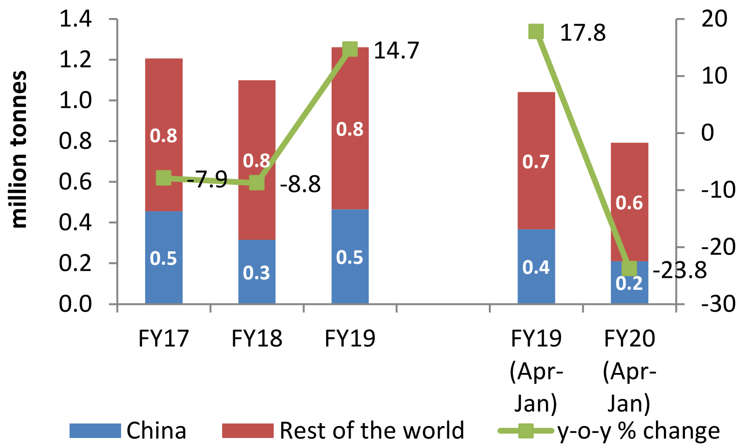
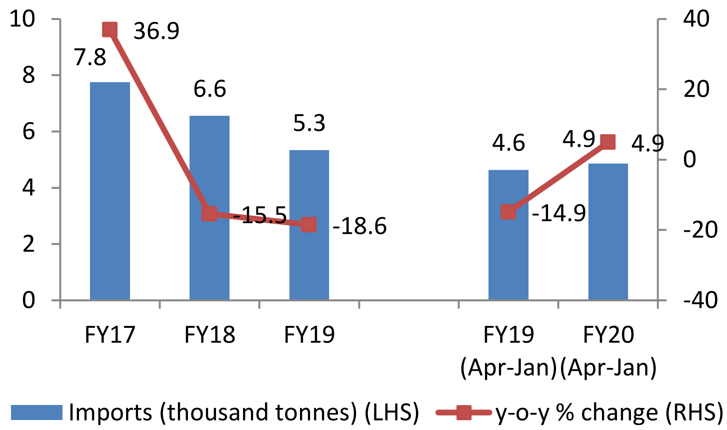


Chart 6: Trend in cotton yarn imports by India



Source: CMIE

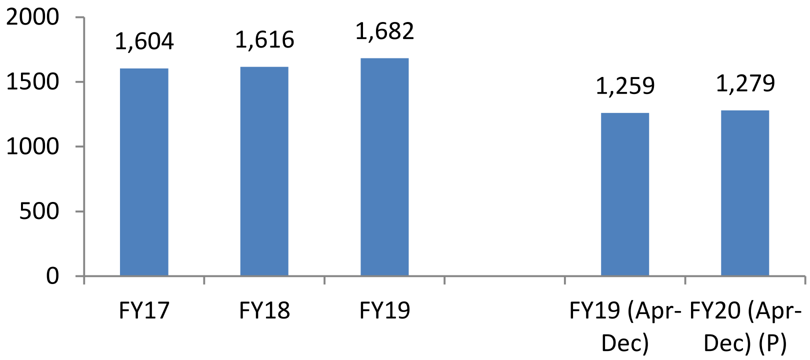
Cotton yarn imports by India are quite small when compared to exports. During the last two years FY18 and FY19, the imports had declined by 15.5% and 18.6%, respectively. The trend however saw a change and the cotton yarn imports by

India increased by 4.9% to 4.9 thousand tonnes during the period April 2019-January 2020. The exports of cotton yarn on the other hand declined by 23.8% during this period as discussed above.

Blended and 100% non-cotton yarn

Blended yarn is integrating fibres of various lengths, origins, thickness or colour to prepare yarn. It also helps in reducing the cost by integrating expensive fibres with the not so expensive ones. The major type of blended yarn in India includes polyester/cotton and polyester/viscose yarns. The other major blend yarn includes cotton/viscose, acrylic/cotton, poly/acrylic, poly/wool among others. As the name suggests, 100% non-cotton yarn is cotton free yarn.

Chart 7: Trend in blended and 100% non-cotton yarn production (million kg)



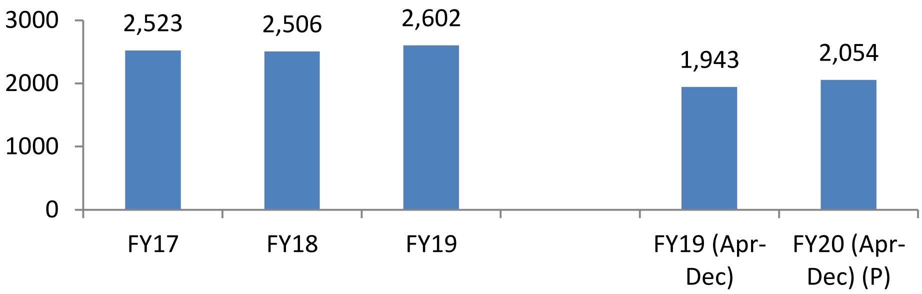
Source: Office of Textile Commissioner Note: P - Provisional

The production of blended and 100% non-cotton yarn remained subdued during FY18 as it rose by only 0.7% to 1,616 million kg. The output gathered pace in FY19 where the production grew by 4.1% to 1,682 million kg. In the first 9 months of FY20, the output increased marginally by 1.6% to 1,279 million kg.

Man-made fibre

During the year FY19, man-made fibre production in India increased by 3.8% to 2,602 million kg. The output for the first 9 months of FY20 grew by a higher 5.7% to 2,054 million kg. 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. These fibres are used to produce 100% non-cotton fabrics and blended fabrics which, in turn, are used in readymade garments, home textiles and other industrial textiles.

Chart 8: Trend in man-made fibre production (million kg)



Source: Office of Textile Commissioner Note: P - Provisional

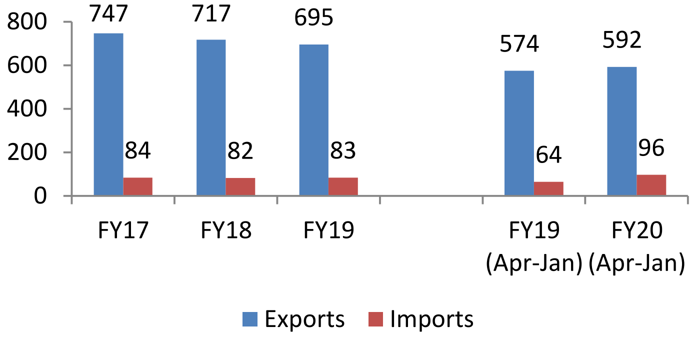
Of the total output of man-made fibres, Polyester Filament Yarn (PFY) has the largest share followed by Polyester Staple Fibre (PSF), Viscose Staple Fibre (VSF) and Viscose Filament Yarn (VFY). During FY18, PFY, PSF, VSF and VFY accounted for 43.5%, 34%, 14.8% and 1.9%, respectively, of the total man-made fibre production.

Trend in PSF and PFY trade

It can be seen from the charts below that India is a net exporter for both the varieties PSF and PFY. The exports of PFY accounted for about 65% of its production and the outbound shipments of PSF had a share of around 26% in its output during FY18.

Chart 9: Trend in PSF trade (million kg)

Chart 10: Trend in PFY trade (million kg)



Source: CMIE

During April 2019-January 2020 of FY20, exports of both the varieties increased in the range of 3%-6% while their imports grew at a much faster rate of 39%-50%. In fact, import of the 2 varieties during this period (10 months of FY20) is higher than their imports in each of the last 3 years FY17 to FY19.

Trend in VSF and VFY trade

It can be understood from the charts below that India is a net exporter of VSF and a net importer of VFY. The imports of VFY are mainly on account of its small production in India compared to the varieties of PSF, PFY and VSF. Exports of VSF accounted for 34% of its production and outbound shipments of VFY had a share of 16% in its output during FY18.

Chart 11: Trend in VSF trade (million kg)

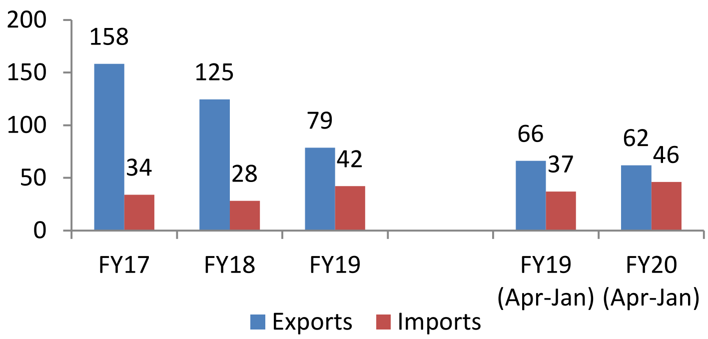
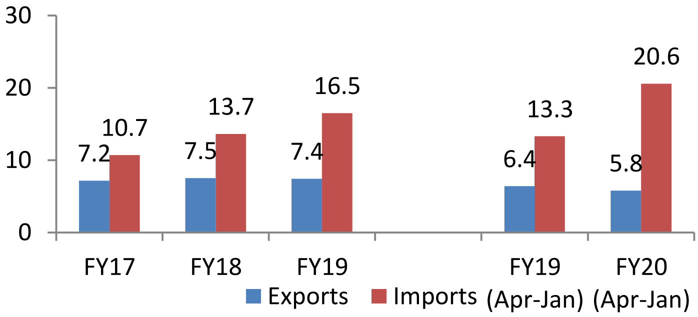


Chart 12: Trend in VFY trade (million kg)



Source: CMIE

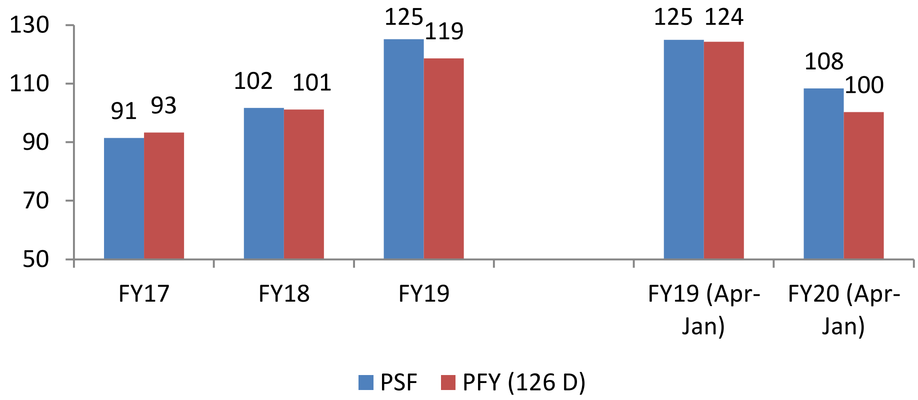
During the first 10 months of FY20, while exports of VSF and VFY declined in the range of 6%-9%, imports of VSF increased by 24.3% to 46 million kg and imports of VYF grew by 54.9% to 20.6 million kg.

It is to be noted that while the imports of all the 4 varieties have surged during April 2019-January 2020, their exports have either declined or increased at a much slower pace compared to imports. Inverted duty structure with respect to GST and issues associated with input tax credit that impacts working capital operations of the companies is the primary reason affecting exports and supporting imports of MMF. Man-made fibre and textiles attract GST of 18%, 12% and 5% on fibre, filament yarn/ spun yarn and fabrics, respectively. This implies that the tax rates are more on raw materials compared to the final output. This, in turn, hinders the exports of MMF and encourages their imports.

Trend in prices of PSF and PFY

The prices of PSF and PFY (126 D) had increased by 8%-4% during FY18. In the next year, the growth rate accelerated and the prices rose by 17%-23%. The trend in prices however witnessed a change in the current year as the prices saw a steep decline during April 2019-January 2020. The prices of PSF declined by 13.3% to Rs.108 per kg and that of PFY (126 D) fell by a sharper 19.4% to Rs.100 per kg during the mentioned period. Lower raw material prices (PTA and MEG) led to the drop in prices of PSF and PFY (126 D) varieties. The trend in raw material prices is detailed in the following section.

Chart 13: Trend in PSF and PFY prices (in Rs. per kg)



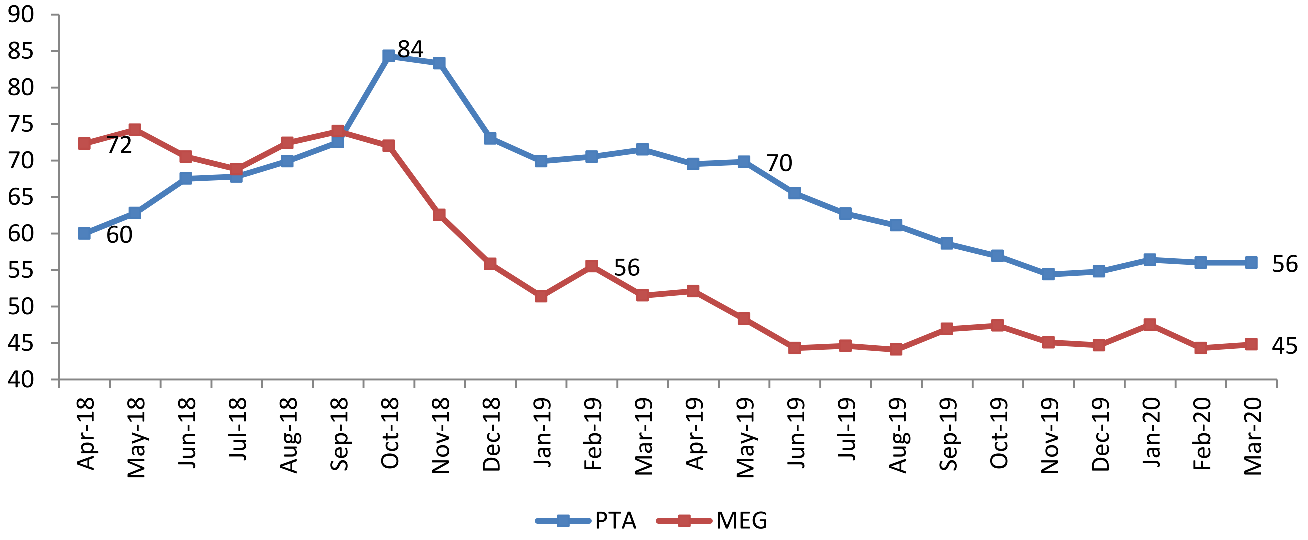
Source: Office of Textile Commissioner

Trend in PTA and MEG prices

The primary or key raw materials used to make polyester are Purified Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). During FY20, the domestic prices of PTA declined by 15.4% to Rs.60 per kg and that of MEG fell by a steeper 29% to Rs.46 per kg.

The US-China trade war impacted the prices of these raw materials during the year. In addition to this, excess capacities of PTA in China kept the prices of PTA under check. Also, higher port inventory of MEG in China affected its prices. India is net importer of PTA and MEG and thus the demand-supply situation in the international market have a direct influence on the domestic prices. Moreover, lower crude oil prices during the year exerted pressure on prices of PAT and MEG. The Brent crude oil prices had declined by 9.4% to USD 61.5 per barrel during FY20. PTA and MEG are derivatives of crude oil and thus their prices are influenced by the movement in crude oil prices. Moreover, Covid-19 outbreak impacted the polyester demand in China (the largest polyester market) which, in turn, kept the prices of raw materials PTA and MEG under pressure during January-March 2020.

Chart 14: Trend in PTA and MEG prices (Rs. /kg)



Source: CMIE

In the Union Budget 2020-21, the anti-dumping duty on PTA was abolished to provide easy access to the raw material at competitive prices. This may augur well for man-made fibre industry as it will help the industry to decrease its cost of production thus supporting the profitability.

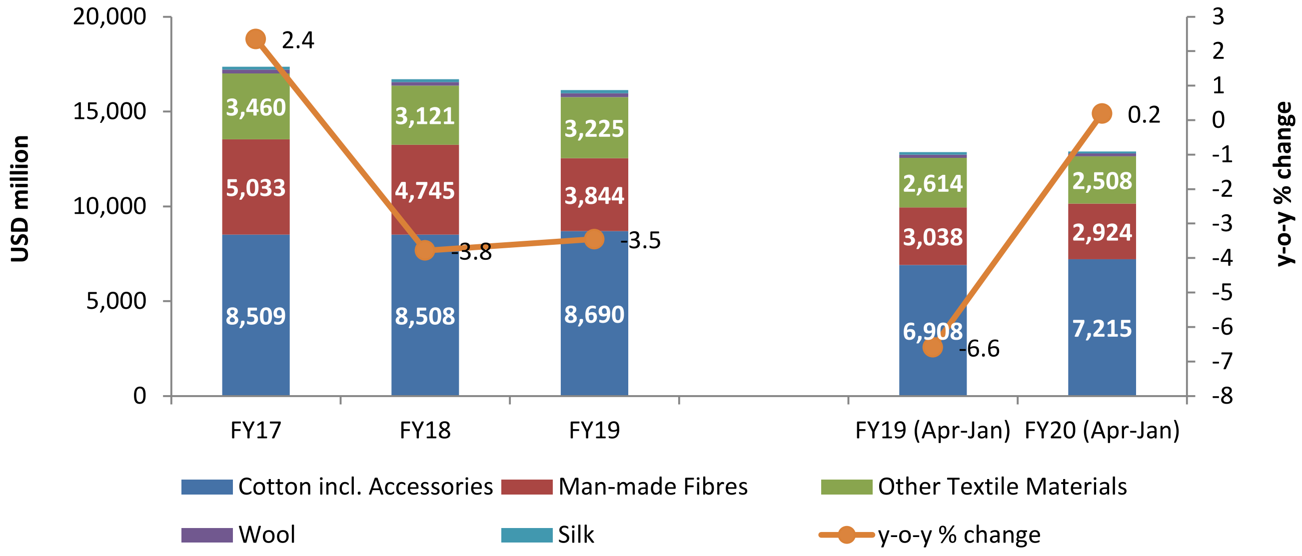
Readymade Garments (RMG)

Apparel exports contribute the maximum in overall exports of textile items accounting for approximately 45% on an average. Of the total apparel exports, outbound shipments of cotton inclusive accessories hold a lion's share of close to 50% followed by man-made fibres (about 25%), other textile materials (around 20%) and wool and silk each accounting for about 1% as shown in chart 15 below.

The growth in export of apparels remained subdued during FY17 to FY19 and continued with similar trend during the period April 2019 to January 2020 as outbound shipments of apparel exports increased by a marginal 0.2% y-o-y to USD 12.9 billion. While exports of cotton incl. accessories segment either remained flat or increased in FY18, FY19 and April 2019-January 2020, outbound shipments from MMF segment declined in the range of 4%-19% during these years and exports from other textile materials segment declined by 4%-10% except for FY19.

Delays of disbursements under Rebate of State Levies (RoSL) scheme, Rebate of State and Central taxes and levies (RoSCTL) scheme and IGST refunds have been affecting RMG exports. The RoSL scheme was replaced by RoSCTL scheme on 7 March 2019. However, replacement of scheme did not provide much relief to the exports as delays continued even under the RoSCTL scheme. All these factors affected the sentiments of exporters and, in turn, apparel exports. While these are some domestic factors that tapered outbound shipments of apparels, the international factors too affected the exports. The apparel exports from India faces tough competition from the competitors Bangladesh and Vietnam as they get preferred access to India's key market - the European Union. The European market accounts for about 33% of the total apparel exports in value terms, followed by US (around 23%) and UAE (approximately 18%). These reasons are primarily impacting the growth of RMG exports from India.

Chart 15: Trend in exports of apparels

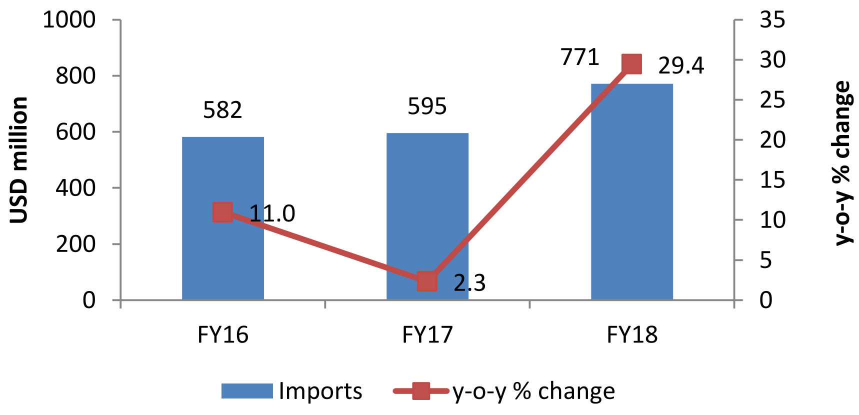


Source: CMIE

To add to the woes of the sector, the Merchandise Export Incentive Scheme (MEIS) which provides 4% benefit on exports of apparel and made-ups sector was withdrawn by the government on 29 January 2020 with retrospective effect from 7 March 2019. This scheme was withdrawn on account of introduction of RoSCTL scheme on 7 March 2019. The government had stated that MEIS is not WTO compliant.

The removal of MEIS benefit will affect the exporters that have gained export orders considering the benefits of MEIS and RoSCTL. The RoSCTL scheme has been recently extended from 1 April 2020 onward until such time that the scheme is merged with Remission of Duties and Taxes on Exported Products (RoDTEP). On 13 March 2020, the CCEA approved the RoDTEP scheme (which is WTO compliant) to boost exports. Under this scheme, taxes/duties/levies at the central, state and local level, which are currently not being refunded under any other mechanism, will be reimbursed.

Chart 16: Trend in imports of RMG



Source: Office of Textile Commissioner

The RMG imports by India are very small compared to its exports. During April-November 2019, RMG imports by India increased by 7.1% to USD 802 million. This is more than the annual imports of USD 771 million by India during FY18 where the imports had increased sharply by 29.4% on a y-o-y basis.

Outlook and impact of Covid-19

As already discussed export scenario of the Indian textiles industry remains weak. In addition to this, spread of Covid-19 will further aggravate the industry's difficulties. The pandemic has disturbed the demand-supply situation of the Indian textiles industry.

The demand for textiles will face headwinds in both the markets, domestic and international. The closure of retail stores and malls on account of lockdown situation across the nation will affect the industry's sales. Even after the lockdown is lifted, demand for textiles will take time to pick up. This is because footfalls will be low in malls and retail stores as people will avoid visiting crowded markets.

On the international front, the outbreak of Covid-19 is expected to keep the textiles demand under pressure in China thus hurting the Chinese cotton yarn and polyester markets. China is the largest export destination for India's cotton yarn outbound shipments. Therefore, muted demand from China is likely to affect India's total cotton yarn outbound shipments and the export unit realisations and the domestic prices. This, in turn, will soften the cotton prices in India to an extent. Also, international cotton prices are expected to be under check due to the global demand-supply disruptions caused by the virus.

China's (the largest polyester market) subdued polyester demand is likely to influence the prices of key raw materials PTA and MEG. This is expected to result in moderation of PTA and MEG prices. Also, fall in crude oil prices will soften the prices of PTA and MEG. It is to be noted that the anti-dumping duty on PTA was abolished in the Union Budget 2020-21 to provide easy access to the raw material at competitive prices.

In addition to the above mentioned segments, the outbound shipment of RMG/apparels (the largest segment in India's total textile exports) is also expected to take a hit. This is because India's export scenario remains depressed for the top export destinations, European markets (including UK) and US (they together account for about 60% of the total apparel exports) given the spread of Covid-19 in these markets and the lockdown situation there.

The demand distortions as discussed will hurt the domestic textiles production as well. Cancellation of export orders has led to build-up of inventories with the textile companies. Also, unsold stock with the industry players may soon run out of fashion for the next season to come which will add to the industry's burden. Given the unfavourable demand scenario, textile firms may not utilise their full capacities or may undertake production cuts thus bringing down the overall output of textiles during FY21. In addition to this, labour disruption (many labours have migrated to their hometowns) will also affect the total textile production numbers. Textiles industry is a labour-intensive industry.

Going forward the textile industry scenario will depend on how the situation evolves in the domestic and international markets and faster return to normalcy will enable the industry to curtail the damages and improve on its growth prospects.

In the medium to long term, some demand from the US and the EU markets is expected to shift (though gradually) from China to other major garment manufacturers viz. Vietnam, Bangladesh, India and Combodia, as the customers will like to decrease their dependence on China.

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