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Textile Conference - 2003

SWOT Analysis of the Indian Textile Industry

Implications for Maharashtra



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The Textile industry is at

Crossroads today...

The global textile industry is likely to grow from
USD 309 Bn to **USD 856 Bn**

India has a **huge opportunity** to capitalise on a much larger portion of this growth, however



China is poised to gain an additional **42 Bn USD** of US trade within **12 months** of quota removals and increase its share of US imports from **9%** to **65%**

And therefore how should the **Indian Textile Industry** respond to this challenge

...and **Maharashtra** must lead the way

The Indian Textile industry has several key strengths...

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graph TD; A[The Indian Textile industry has several key strengths...] --> B[Abundant RM Availability]; A --> C[Low Cost Skilled Labour]; A --> D[Presence across the value-chain]; A --> E[Growing Domestic Market];
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**Abundant
RM Availability**

**Low Cost
Skilled Labour**

**Presence across
the value-chain**

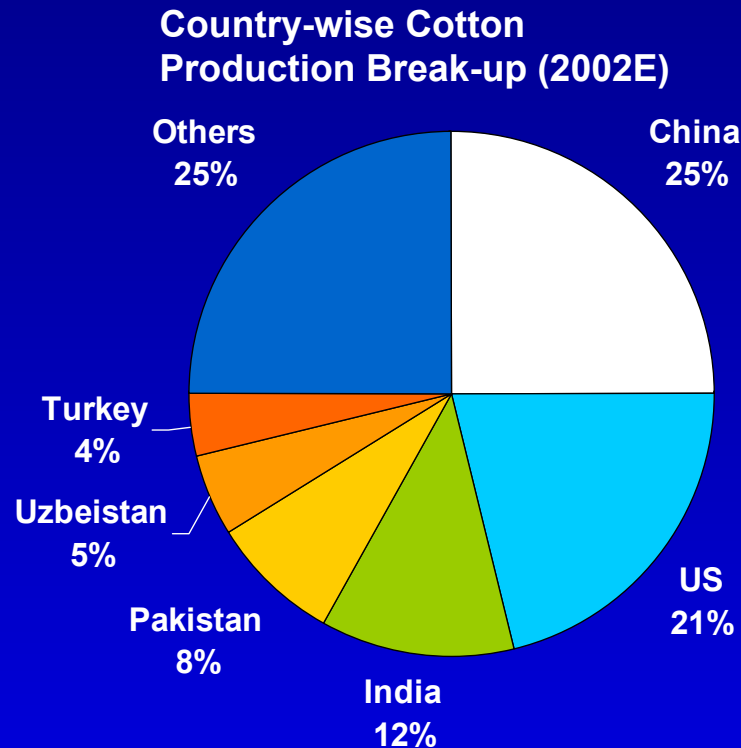
**Growing
Domestic Market**

... we discuss each of these in greater detail in the following slides

Abundant Raw Material Availability

...allowing the industry to **control costs** and **reduce overall lead-times** across the value chain

Maharashtra: Has the advantage of being in **close proximity** of sources of both **Natural and Man-made fibre and fabric** as well as access to **imported fibre** through excellent ports.

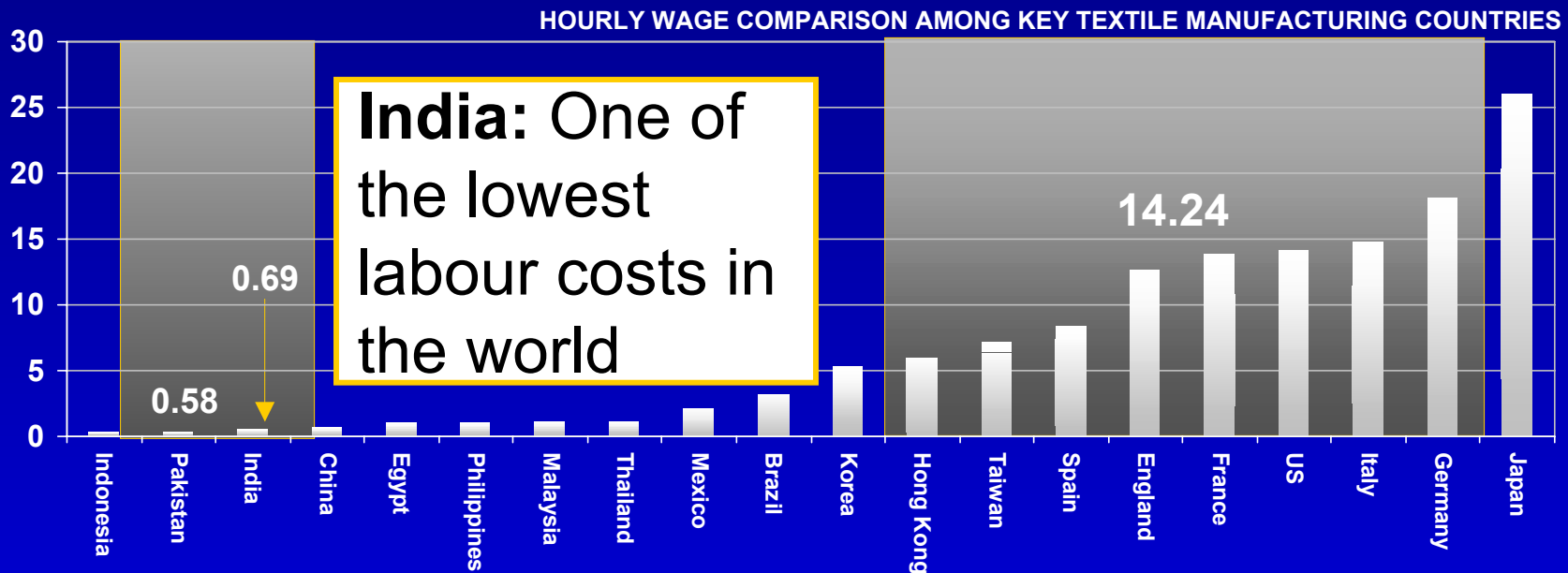


India: One of the largest producers of Natural & Man-made Fibres

Given inconsistent quality, would the industry be able to support large scale increases in volume?

Low Cost Skilled Labour

...providing a distinct **competitive advantage** for the industry



Maharashtra: Has one of the **best available skilled labour force** in textiles due to the existence of **traditional textile centers** – Mumbai, Sholapur, Amravati etc.

Given the need for greater automation, how should the industry channelise the skill-base?

Presence across the value-chain

...providing a **competitive advantage** when compared to countries like **Bangladesh, Sri-lanka** who have developed primarily as garmenters

- **Reduced Lead-times:**
 - Manufacturing capacity present across the **entire product range**, enabling textile companies and garmenters to **source** their material **locally**, and **reduce lead time**
- **Super market:**
 - Ability to satisfy **customer requirements** across **multiple product grades** – small and large lot sizes, specialized process treatments etc.

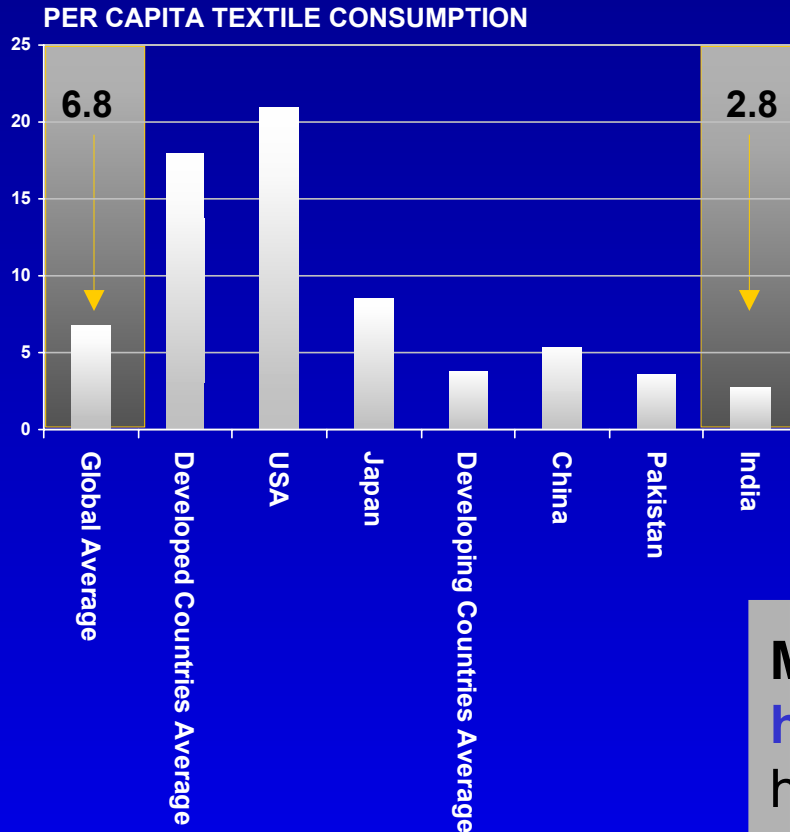


Maharashtra: Has industry presence **across** the **value-chain** – yarn, fabric, process houses, garmenters and **access to excellent ports**

How should the industry fully exploit this advantage?

Growing Domestic Market

...which could allow manufacturers to “**mitigate risks**” while allowing them to **build competitiveness**

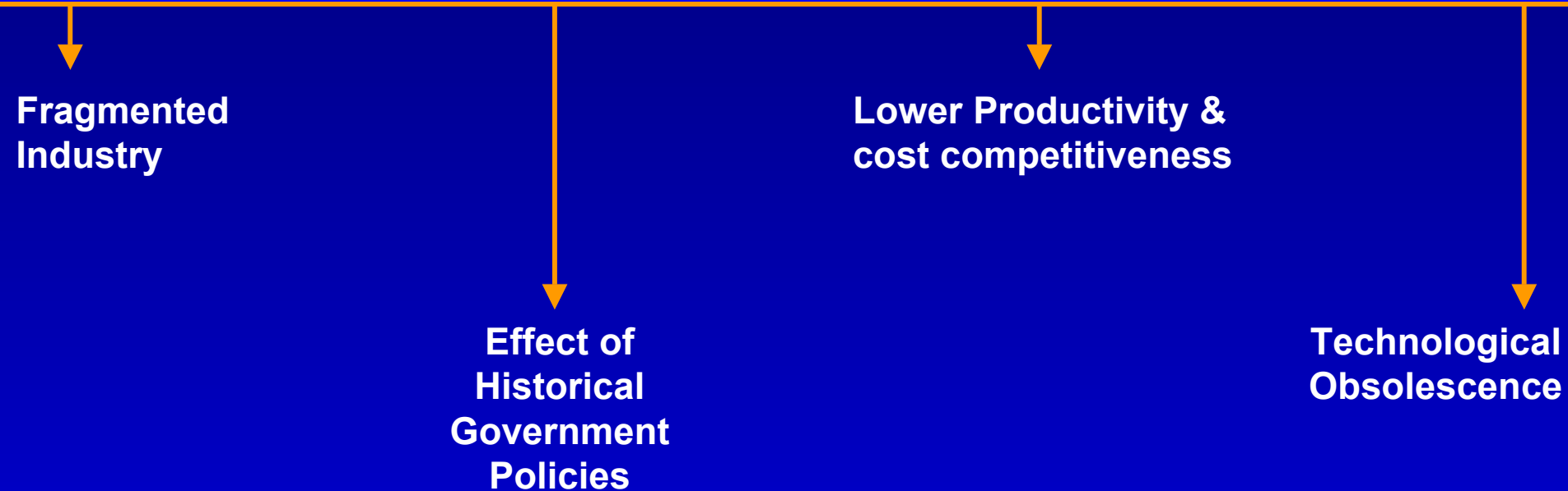


- **Vibrant domestic market**, enabling manufacturers to spread out risks and overcome **events like 9/11**
- **Very low per-capita consumption** of textiles indicating **significant potential for growth**
- Domestic market is **extremely sensitive to fashion fads** and this has resulted in the development of a very **responsive garment industry**

Maharashtra: The state has one of the **highest State Domestic Products** and is host to a **burgeoning middle-class**

How should the industry address the risk of international competition?

However, there are several inherent weaknesses as well...

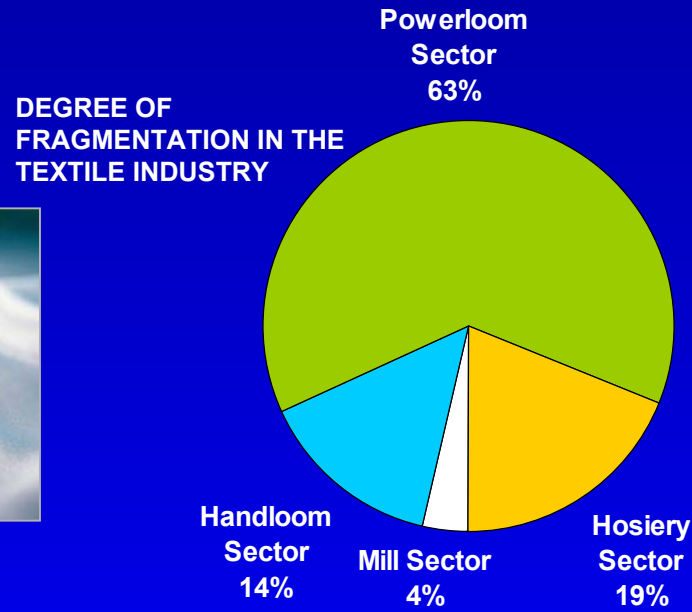


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Fragmented industry

...leading to **lower ability** to expand and **emerge** as “**world-class**” players

- In **fabric**, large section of the industry is in the **power loom** and **Handloom** sectors
- Global buyers prefer to **source** their entire **requirements** from **two to three vendors**, and Indian garmenters find it difficult to fulfill the capacity requirements



Maharashtra: Extremely **fragmented** industry with significant section of the industry in the **power loom sector** – in centers like Bhiwandi

How should the industry organize capacities to meet global buyer expectations?

Historical Regulations

...though **relaxed** continue to be an **impediment** to global **competitiveness**

- The industry **continues** to be affected by several historical regulations continue Eg absence of a **viable exit option** for industry players.
- These regulations resulted in a **complex industry structure**, which is currently an impediment, Eg
 - Pre-2000, **garmenting was reserved** for the **SSI sector**, which has resulted in most units being set-up with **small capacities**
 - **Knitted garments** continue to be reserved for the **SSI sector**
- On the other hand, in some cases the industry too has **not taken full advantage** of government initiatives Eg TUF

Maharashtra: A specific example includes **delays in government approvals** to textile mills to **liquidate land assets** in Maharashtra which has led to greater industry sickness

What does the industry/government need to do to speed up the reform process?

Lower cost competitiveness

...has **hampered ability** to **compete** with **lower cost** global **players**

- Labour force in India has a much **lower productivity** as **compared** to competing countries like **China, Sri-Lanka** etc.
- The Indian industry **lacks** adequate **economies of scale** and is therefore **unable** to **compete** with China, and other countries etc.
- Costs like **Indirect taxes, power** and **interest** are relatively high



Maharashtra: The state has a **history** of **Labour problems**

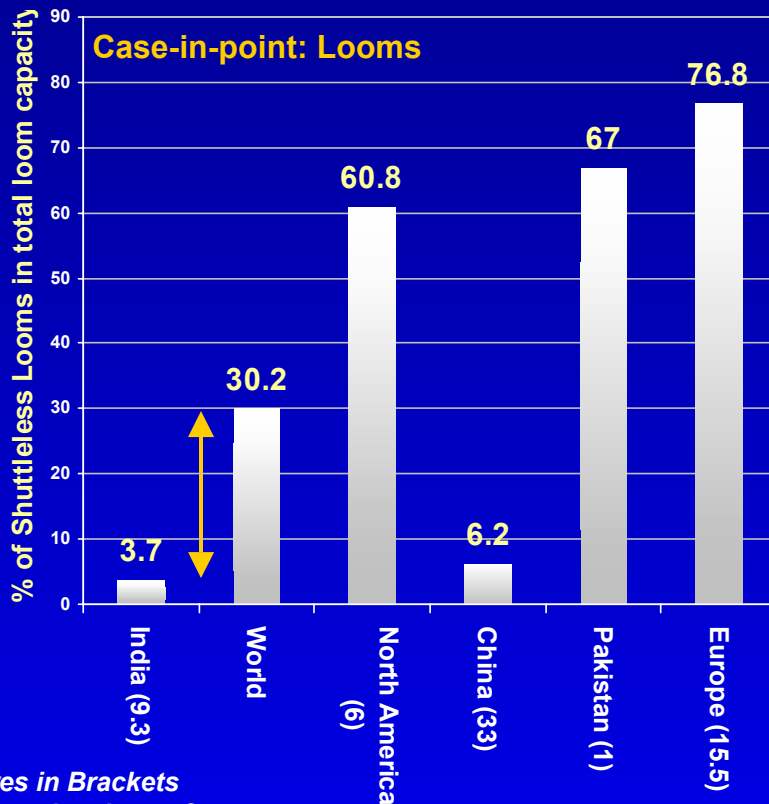
What would it take to build cost competitiveness?

Technology Obsolescence

...has resulted in the need for **significant technology investments** to achieve **world-class quality**

- **Large portion of the processing capacity is obsolete**
- While state of the art integrated textile mills exist, majority of the **capacity** lies currently with the **power loom** sector
- This has also resulted in **low value addition** in the industry

DEGREE OF MODERNISATION IN THE TEXTILE INDUSTRY



Figures in Brackets indicate the share of the country in the world loomage capacity

Maharashtra: The financial problems faced by most textile mills in the state has also resulted in **insufficient investments in technology**

For a start how can the TUF/TRF be more effectively implemented? How can larger players be incentivised to invest in modernisation?

Several opportunities remain for the Indian Textile industry...

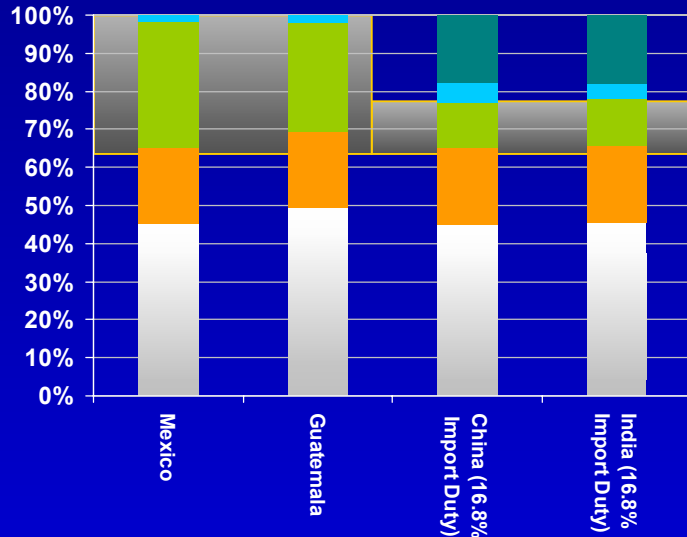
**Post 2005
Challenges**

**R&D & product
development**

... we discuss each of these in greater detail
in the following slides

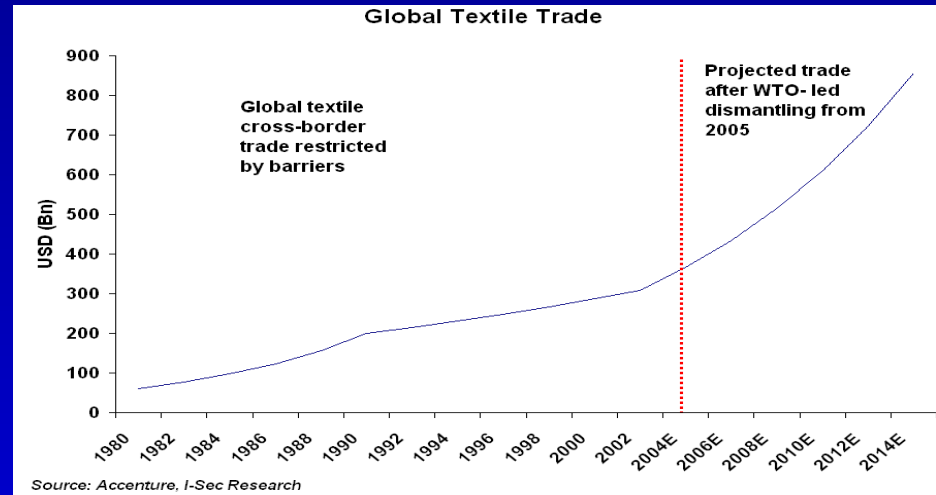
...is a **huge opportunity** that needs to be capitalised

JEANS COST COMPARISONS WITH COMPETING COUNTRIES CURRENTLY EXPORTING DUTY FREE TO THE US



- Fabric Cost per Piece
- Conversion Cost per Piece
- Import Duty
- Trims, Washing Chemicals
- Freight to US

- Global Trade expected to **triple** from the current **USD 305 Bn to USD 856 Bn**



- **India's** current share is barely **3%** while **China** controls about **15%**
- **Post 2005**, it is expected that **China** will capture about **43%** of global **textile trade**

What must the Industry plan to capture this Opportunity at the start?

New Product Development

...needs **additional focus** in Indian companies in order to **move up** the **value-chain** and capture a greater global market share

- Indian companies needs to **increase focus on product development**:
 - Newer specialized fabric – Smart Fabrics, Specialized treatments etc
 - **Faster turnaround times for design samples**
 - Investing in **design centers** and **sampling labs**
- Increased use of **CAD** to develop **designing capability** in the organisation and developing greater options
- Investing in **trend forecasting** to enable growth of the industry in India.



How can the industry build and project its capabilities to the international community?

The Industry needs to keep in mind several potential threats...



... we discuss each of these in greater detail in the following slides

Competition in domestic market

...by competition offering **lower prices** and **better quality**

- Competition is not likely to remain just in the Exports space, the industry is likely to face **competition from cheaper imports** as well
- This is likely to affect the domestic industry and may lead to increased consolidation



How should the industry address the risk of international competition?

Ecological and Social awareness.

...is likely to result in **increased pressure** on the industry to follow **international labour** and **environmental laws**

- Developed markets have seen **extensive developments** in the form of increased **consumer consciousness** on issues such as usage of **polluting dyes**, usage of **child labour**, **unhealthy working conditions** etc.
- Standards like the **SA 8000** have now started being implemented extensively in the industry
- This has resulted in increased **pressure on companies** to limit sourcing from countries/ companies known to have such **practices**
- The Indian industry **needs to** prepare for the fall-out of such issues by **improving** its **working practices**

Could large Indian players make this a competitive advantage?

Regional Alliances

...will continue to have a significant impact

- **Regional Trade blocs** play a significant role in the global garment industry with countries enjoying **concessional tariffs** by virtue of being members of such blocs/ alliances
- Indian industry, would need to be prepared to face the fall-out of the post 2005 scenarios in the form of **continued barriers for imports**



How will industry further reduce costs and develop alternative competitive advantages?

In Conclusion...

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Crossroads today...

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...**this opportunity** for the Textile industry could potentially be the Next **Big Wave** for the **Indian Economy**...

...various **stakeholders** within the Textile industry should work towards **developing a competitive advantage** and **projecting** it to the the **global market**

Thank You

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