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...

- Abundant RM Availability
- Presence across the value-chain
- Growing Domestic Market
- Low Cost Skilled Labour

...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?

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**Country-wise Cotton Production Break-up (2002E)**

- **China:** 25%
- **US:** 21%
- **India:** 12%
- **Pakistan:** 8%
- **Uzbekistan:** 5%
- **Turkey:** 4%
- **Others:** 25%
Low Cost Skilled Labour

...providing a distinct competitive advantage for the industry

**India:** One of the lowest labour costs in the world

**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

How should the industry address the risk of international competition?

**Maharashtra**: The state has one of the highest State Domestic Products and in host to a burgeoning middle-class
However, there are several inherent weaknesses as well…

- Fragmented Industry
- Effect of Historical Government Policies
- Lower Productivity & cost competitiveness
- Technological Obsolescence

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

What would it take to build cost competitiveness?

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

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

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.
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
2005

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

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

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

  - Global Textile Trade

  - Projected trade after WTO-led dismantling from 2005

  - Source: Accenture, I-Sec Research

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

  - 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?
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...

- Ecological and Social awareness.
- Competition in domestic market
- Regional alliances

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

…and Maharashtra must lead the way.

...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 global market.
Thank You

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