Textiles and Apparel

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Textiles and Apparel

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A report by KPMG for IBEF

Introduction

The global textile and apparel industry is worth over US$ 4,395 billion, with clothing accounting for 60 per cent of the market and apparel, the balance 40 per cent. Global trade in this industry is now at US$ 350 billion and is expected to be in the range of US$ 600 billion by 2010 and US$ 800 billion by 2014. The bulk of the increase is expected to be from clothing, which is projected to grow to nearly US$ 400 billion by 2010.

USA and European Union (EU) together are the major consumers of textiles. They accounted for nearly 64 per cent of clothing and 39 per cent of textile consumption in 2004. Among other countries, Japan, Australia and New Zealand are significant consumers of Indian textiles.

POSITION OF INDIA IN THE GLOBAL ARENA

With China leading the global textile trade, India ranks second with 8 per cent of the total. India contributes to nearly 4 per cent of total textile exports and 3 per cent of total apparel exports in the world.

India has the highest number of looms- 1.8 million shuttle looms (at 45 per cent of global capacity) and 200,000 shuttle-less looms (at 3 per cent of global capacity) and 3.9 million hand looms (at 85 per cent of global capacity). India has the second highest number of spindles in the world with 40 million spindles (at 23 per cent of global capacity).

India ranks first in jute production (at 1,900 million kilograms), second in silk production (at 15 million kilograms of raw silk), second in cotton exports (at 2,000 million kilograms), second in cotton production (at 2,700 million kilograms of cotton fibre), fifth in man-made fibres (at 2,000 million kilograms) and ranks eighth in the total production of wool (at 51 million kilograms) in the world.

Indian Textile Industry

The textile and apparel industry contributes significantly to the Indian economy. It accounts for 14 per cent of total industry output and nearly 5 per cent of Gross Domestic Product (GDP). It provides direct employment to 38 million people and is the largest foreign exchange earner, contributing nearly 20 per cent to India's total exports.

In the last three years, the sector has attracted a total investment of US$ 5,770 million. The cumulative Foreign Direct Investment (FDI) made in this sector between 1991 and 2007 has been US$ 575 million, representing 1.22 per cent of the total FDI attracted by the country.

THE INDUSTRY HAS BEEN GROWING ACROSS SEGMENTS

Production of textile yarn witnessed a compounded annual growth rate (CAGR) of 3.6 per cent between 1996 and 2006. Finished cloth has witnessed a higher CAGR of 4.1 per cent during the same period. This growth outperforms the global production, which experienced a CAGR of 2.25 per cent (both yarn and cloth). Most of this growth is contributed by non-cotton yarn, which grew at 6 per cent CAGR in 2006.

Textile exports have witnessed a CAGR of 11.8 per cent in 1996-2006. Man-made textiles have shown maximum growth and witnessed the highest CAGR at 14.5 per cent followed by Ready-Made Garments (RMG) at 12.4 per cent. USA and EU are the major markets contributing nearly 80 per cent to textile exports.

The Textile Value Chain

Process	Sourcing of raw materials, ginning and extrusion of fibre	Spinning	Weaving/ Knitting	Processing	Apparel Making	Distribution/ Retailing
Process	Ginning and cleaning machines	Spinning Mills	Weaving/ Kniting Units	Processing Units	Apparel design & making	Outlets/ Stores
Output	Man-made fibre cotton, jute, silk, wool	Yarn	Fabric	Processed Fabric	Garment	
Units		1,135 small scale: 1,564 large scale	Hand looms 3.9 million Power-looms 1.8 million	2,100	7,7000 units	
Remarks	Fairly large, well organised and financially strong	Large capacity Fragmented	Weak and unorganised	Some large players	Fragmented Consolidating	Fairly organised

Export of textile is projected to grow at 22 per cent between 2007 and 2012 and expected to reach US$ 55 billion by 2012.

THE INDIAN TEXTILE INDUSTRY SPANS ALL ACTIVITIES ACROSS THE VALUE CHAIN

Raw Materials

The major raw materials for the textile and apparel industry include cotton, jute, silk, wool and man-made fibre.

Cotton

In 2005-06, India was the second largest producer of cotton (4.15 metric tonnes) in the world, accounting for 16.75 per cent of the global production. Cotton is the predominant fabric used in the Indian textile industry, accounting for nearly 60 per cent of production. The average yield of cotton per hectare in India is about 400 kilograms which is considered low. Cotton exports to major countries stood at US$ 3,203 million in 2005-06.

Wool

The wool industry is small in size and scattered across the country, with 77 per cent of the production coming from northern states. This sector consists of both organised players (composite mills, combing units, worsted and non-worsted spinning units, knitwear and woven garments units) and de-centralised units (hosiery and knitting units, power-loom units, hand-knotted carpets, druggets and namdah units, independent dyeing and processing houses). The total production of wool in 2006 was about 55 million kilograms.

Jute

The jute industry is labour intensive. Production of jute goods in India in 2005-06 was 1.582 metric tonnes. Jute exports for the year 2005-06 stood at US$ 272 million. About 75 per cent of the total capacity of the jute industry is being utilised at present.

Silk

India is the second largest producer of silk in the world, contributing 18 per cent to the total global production. It has the distinction of producing all the four varieties of silk (Mulberry, Eri, Tasar and Muga). The total silk production in 2004-2005 stood at 44,322 million square metres. Silk exports earned US$ 413.64 million in 2004-05.

Man-made fibres

Man-made fibres consist of synthetic fibres such as polyester filament yarn, polyester staple fibre, acrylic staple fibre, nylon filament yarn and cellulose fibre/yarn such as viscose fibre/yarn. India is a leading producer of viscose filament yarn. The total production of man-made fibres stood at nearly 1 billion kilograms in 2006-07.

While there is abundant availability of raw materials, the Indian textile and apparel industry has been suffering from low productivity due to low farm yields affecting cotton production, accentuated costs incurred in additional processes to clean cotton fibres, poor (old and outdated) ginning equipment and high defect rates in production.

Spinning

The spinning sector in India is completely (100 per cent) organised and is globally competitive in terms of variety, process and production quantity. India has about 40 million spindles (23 per cent of the world). Independent spinning mills account for about 75 per cent of total capacity and 92 per cent of the total production. These mills are chiefly located in North India.

The spinning process is technologically intensive, the output is affected by the quality of fibre and the cleaning process of raw materials.

Weaving/Knitting

India's weaving/knitting sector is highly unorganised, with the organised sector contributing to just 5 per cent of the total production. There are about 3.9 million hand looms and 1.8 million power-looms in India.

Hand looms cater to both ends of the value chain, i.e. mass consumption, as well as specialty use. Hand looms are located mostly in rural areas such as

Pochampally in Andhra Pradesh and Kanchipuram in Tamil Nadu.

Demand for standardisation in apparel segments such as sarees has given a significant impetus to power-looms, which contribute to 62 per cent of the total cloth production. Knitting units are successful in export channels. Some of the prominent weaving/knitting clusters include Tirupur in Tamil Nadu and Ludhiana in Punjab.

This is the weakest link in the supply chain suffering from problems such as high power tariffs and low investments in technology.

Processing

Indian processing sector is largely decentralised with low levels of automation, marked by hand/independent processing units. This has lead to inconsistency in production and lack of conformance to quality. About 2,300 processors are operating throughout India, including about 2,100 independent units and 200 units that are integrated with spinning, weaving or knitting units.

Apparel Making

The apparel sector has over 25,000 domestic manufacturers, 48,000 fabricators and around 4,000 manufacturers/exporters. Over 80 per cent of the total units are small operations (less than 20 machines) and are either proprietorship or partnership firms.

Access to a variety of raw materials and flexibility of supply chain enables apparel manufacturers to mix and match various constituents and come up with innovative designs. However, this advantage has not been leveraged effectively.

Apparel exports in 2006-07 stood at US$ 10 billion, with a year on year growth of 8.4 per cent

An important sub-segment of the apparel segment is the Ready-Made Garments segment (RMG). This is the largest export segment contributing to 45 per cent of the total textile exports. RMG exports are expected to touch US$ 14.5 billion with a CAGR at 18-20 per cent.

OPPORTUNITIES FOR INVESTING IN THE INDIAN TEXTILE SECTOR

Attractiveness of the industry

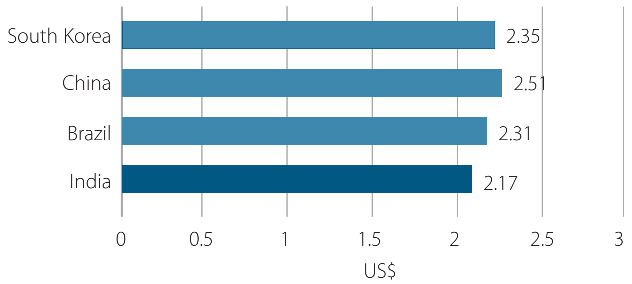
Favourable factor conditions

Favourable factor conditions provide India with a strong comparative advantage over other competing countries in the textile industry. Specifically, India has the following strengths:

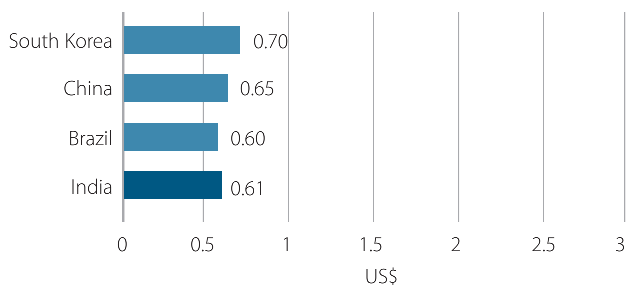
Cost Competitiveness

Yarn: US$ per kg of yarn
Fabric: US$ per yard of fabric

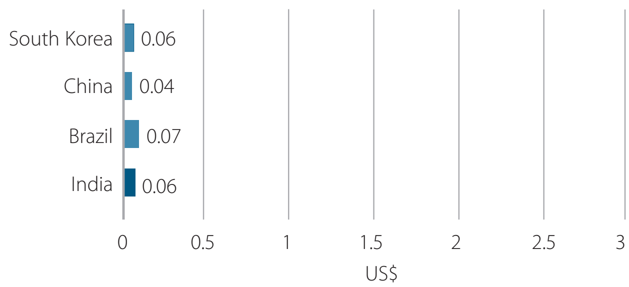
Open-ended Yarn



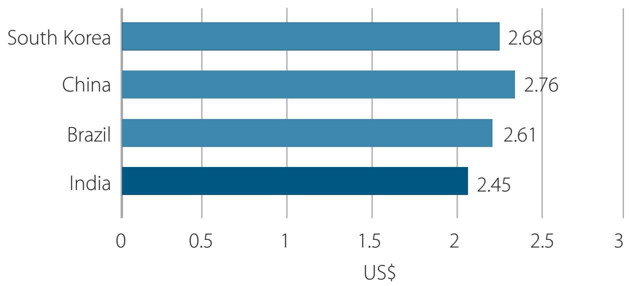
Open-ended Woven Fabric



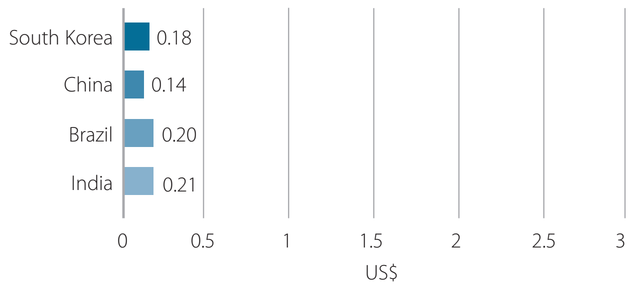
Open-ended Knitted Fabric



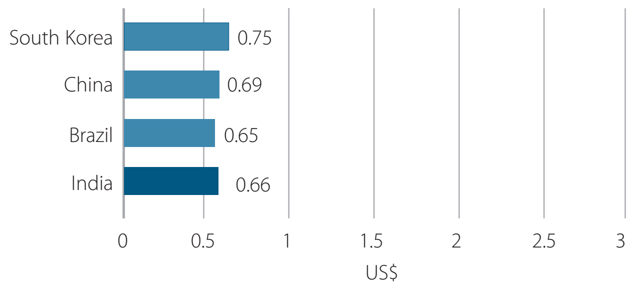
Ring Yarn



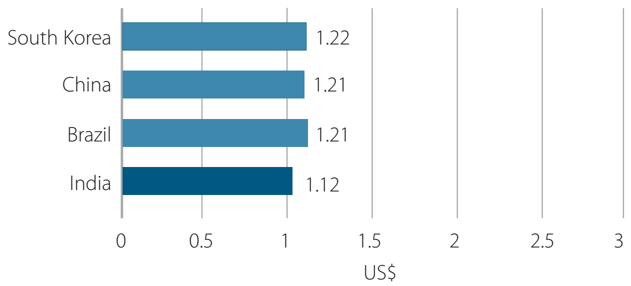
Textured Knitted Fabric



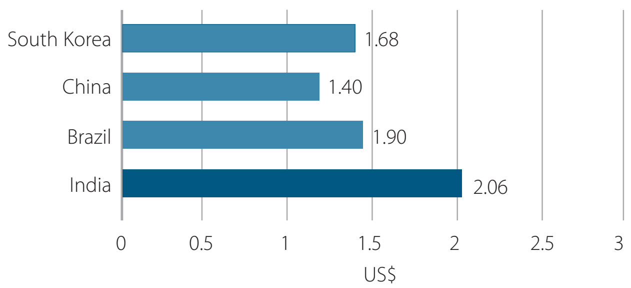
Ring Woven Fabric



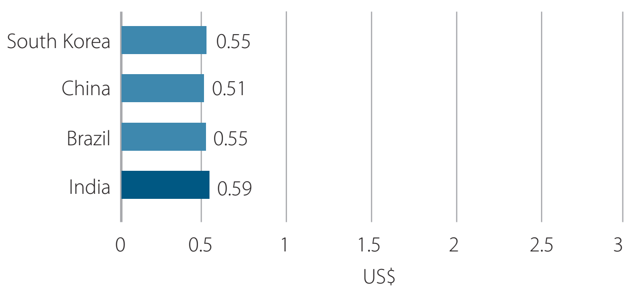
Ring Knitted Fabric



Textured Yarn



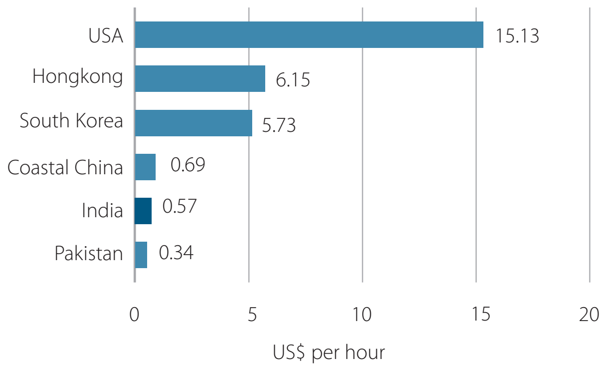
Textured Woven Fabric



- Abundant and low price supply of raw-materials: As can be seen from the cost competitiveness chart, India is more cost-competitive than China and Brazil across a range of materials. India also has a diverse supply of raw materials, 23 varieties of cotton and all four varieties of silk. This inherent strength in availability of raw materials insulates the market from any supply-side shocks.

- Availability of low cost skilled labour: Labour costs in India continue to be significantly low as compared to other countries. This factor provides a significant advantage to the textile industry in India, in terms of increased productivity at lower costs.

Labour Cost



Favourable domestic market

With increase in disposable income levels, consumer awareness and propensity to spend and the demographic trends in India are changing significantly.

According to NCAER data, the consuming class, with an annual income of US$ 980 or above, is growing continuously and is expected to constitute over 80 per cent of the population by 2009-10. There is a significant change in the consumer mindset which has led to a growing trend of increased consumption of personal care and lifestyle products, as well as branded products. These trends offer great growth opportunities to companies across various sectors, including textiles.

In response to this growing demand for consumption a revolution is taking place in India's retail sector. Organised retail is playing a key role in structuring the Indian domestic market, reinforced by the rapid rise of supermarkets, malls, theme stores and franchises across urban India.

India thus presents a large and vibrant market for textiles and apparels, with a potential for sustained growth.

Government initiatives to promote investment

It is estimated that this industry will require US$ 22 billion of new capital investments over the next five years.

With a view to raise India's share in the global textile trade to 10 per cent by 2015 (from the current 3 per cent), the Ministry of Textiles has proposed 50 new textile parks. Out of the 50 proposed parks, 30 have been already sanctioned by the Government (with a cost of US$ 710 million). Set up under the Scheme for Integrated Textile Parks (SITP), this initiative will not only make the industry cost competitive, but also enhance the manufacturing capacity of the sector.

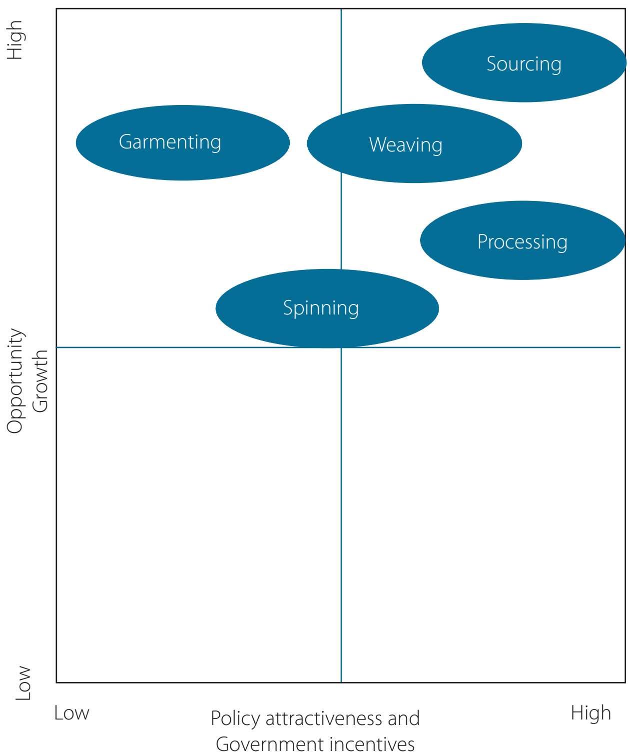
To promote the industry's growth, the Government has also taken various support initiatives in areas such as:

- *Product development and design*: Encouraging institutes such as NIFT (National Institute of Fashion Technology) and Apparel Training and Design Centres (ATDCs). There are several colleges, including the Indian Institutes of Technology and National Institutes of Technology, that offer courses in Textile Engineering.
- *Technology Upgradiation*: The Government of India established the Technology Upgradation Fund Scheme (TUFS), to enable firms to access subsidised low-interest loans for technology upgradation. Under this scheme, the Government reimburses 5 per cent of the interest rates charged by the banks and financial institutions, thereby ensuring credit availability for upgradation of technology at global rates. In a further bid to bolster the growth, the Government is also expected to increase the TUF from US$ 124 million in 2006-07 to US$ 211 million in 2007-08
- *Revival of sick units*: Revival plans of the mills run by National Textiles Corporation (NTC). Already, US$ 2.21 million worth of machinery has been ordered for the upgradation and modernisation of 18 textile mills
- *Others*: The Government of India has also included new schemes in the Annual Plan for 2007-08 to provide a boost to the textile sector. These include schemes for foreign investment promotion to attract FDI in textiles clothing and machinery; brand promotion on Public-Private Partnership (PPP)) approach to develop global acceptability of Indian apparel brands; trade facilitation centres for Indian image branding; fashion hubs for creation of permanent market place for the benefit of Indian fashion industry; common compliance code to encourage acceptability among apparel buyers and training centres for human resource development on PPP mode

The fragmented structure of the industry provides the advantage of a large pool of skilled workmen in different areas of textile manufacturing and also gives scope for entry of organised integrated textile manufacturers. Small scale units in different sectors can also be leveraged as a supply base, for sourcing materials at low cost.

ATTRACTIVE SEGMENTS FOR INVESTMENT

The different segments within India's textile and apparel industry have been assessed along two parameters- the growth opportunity offered, based on market trends and gaps in current capabilities and the supportive environment, based on Government policy initiatives to



support the segment. Based on these parameters, the following segments appear attractive, and are discussed in the following sections.

Sourcing

Sourcing of raw materials from India could be an attractive option for players looking to enter the Indian textile market. The cost of raw materials in India is amongst the lowest in the world. However, there is room for improving the quality of cotton. The quality of the fabric can also be significantly improved, by investing in modern ginning equipment. There is a growing need for new fabrics, such as, poly-satin, viscose, etc. the processes of which are technologically intensive.

While some global buyers are leveraging India's cost advantage by directly collaborating with Indian suppliers to source material, the Government has focused on supporting the industry, to improve quality and acquire technology.

- The Ministry of Textiles encourages firms to improve quality by introducing various quality certifications like ISO
- The Ministry has also incorporated a Technology Upgradation Fund to encourage investment in technology

Weaving

Weaving/knitting units in India are weak and small in size. Many are faced with debt problems and require capital investment. At the same time, increased demand for fabric from home and industrial textiles will require significant investments in modern processing machinery.

In these circumstances, investments in modern weaving / knitting units in India could yield benefits. The Government has proposed credit-linked capital subsidy for procurement of modern power-looms.

Processing

There is an increasing need to adapt prints to the export market. Also, companies need to invest in technology like natural wash and laser wash to bring Indian garments at par with quality of garments in the export market.

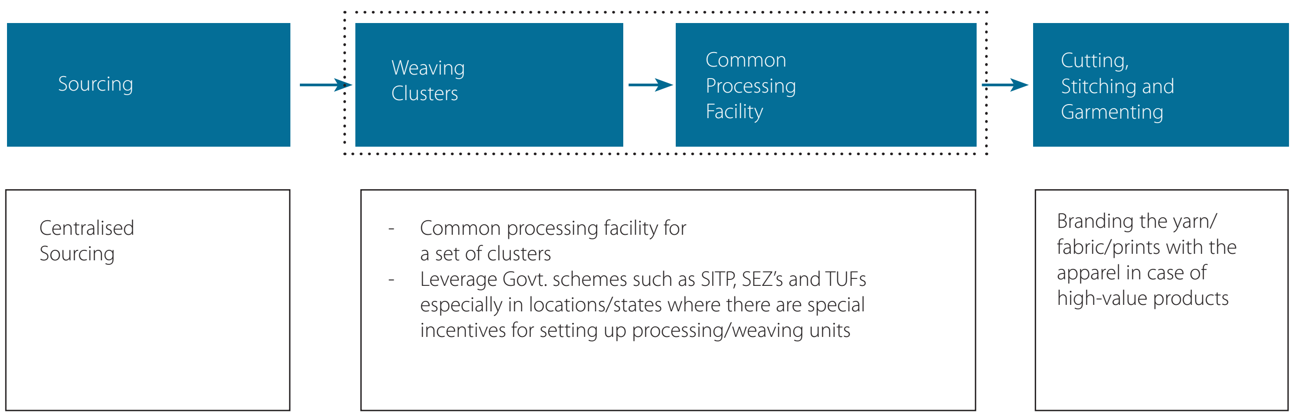
The Government provides a capital-linked subsidy of 10 per cent in addition to 5 per cent reimbursement on the interest paid for loans taken by processing units.

Garmenting

The RMG sub-segment is growing at a rapid pace, with RMG exports expected to touch US$ 55 billion by 2010. This segment also needs injection of new technology, especially in bringing out new and contemporary designs quickly to the market.

SUCCESSFUL ARRANGEMENTS FOR INVESTING IN THIS SECTOR

Different business models have been tried out by players investing in the Indian textile sector, to leverage the existing capabilities. Two such models that could be options for new investors, are discussed below:



Producer Model: The MNC invests in processing and weaving segments of the Value Chain

Source: KPMG Analysis

PRODUCER MODEL

The MNC invests in processing and weaving segments of the value chain.

The operating model

The MNC invests in the processing and weaving segments of the textile value chain. This is done by acquiring an equity stake in the processing and weaving units. Since the processing segment is fraught with problems related to quality conformance across various units, the MNC might set up a common processing facility for a group of weaving clusters. Orders are allocated to these units based on the manufacturing competence and capacity utilisation. There should be a centralised sourcing system of raw materials to leverage advantages of large orders. This centralisation also helps effective order tracking. The MNC might also invest in a captive power unit for cost containment.

The MNC should also strategise its production with the retail demand, as many retailers usually communicate their buying plans 9-10 months in advance. The MNC might also promote the fabric with the final product-apparel in case of high-value garments, where the quality of fabric makes considerable difference.

Key advantages of this business model

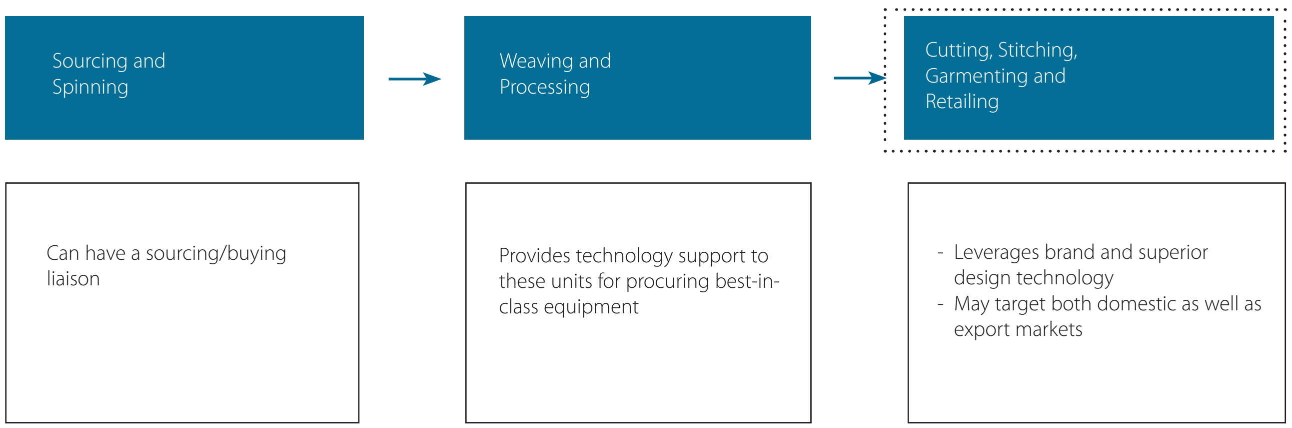
This model best exploits the various incentives in the processing and weaving segments that are provided by the Government. It improves bargaining power with yarn suppliers.

Since the weaving and processing segment is highly fragmented, this business model will bring significant organisation in the sector.

This model is being successfully followed in India, by Zeiglertex (Also see case study on Zeiglertex, included later in this document).

THE APPAREL-MANUFACTURER MODEL

Garment manufacturing model: The MNC invests in designing and manufacturing of garments



Garment manufacturing model: The MNC invests in designing and manufacturing of garments

Source: KPMG Analysis

Features of the operating model

The MNC invests in a cutting/stitching and garmenting unit. The output is sold under the MNC brand. It caters both to export as well as domestic markets. This investment could be through a JV with an indian player, or as a stand-alone unit.

The MNC offers technology support to the weaving and processing clust ers to import best-in-class equipment from other countries to enhance the quality of fabric. It also agrees with the clusters on adherence to stringent quality norms

For better order management and to avoid supply-side shocks, the MNC announces its buying plans well in advance.

Key Benefits

This is the most attractive segment for exports with RMG contributing to 40 per cent of total exports.

Lifestyle brands from MNCs abroad are fast gaining prominence in the Indian market. Currently, they can reach only the premium segment, due to high pricing of the apparels. Using a cost-effective production strategy as suggested the MNC can successfully bring down the cost of the apparels enabling it to target other customer-segments of the domestic market This model is being followed in India by Benetton. While MNC's following the above business models are successful, it is important to note that integration across the value chain will provide a key advantage to this sector as discussed earlier.

CRITICAL SUCCESS FACTORS FOR MANUFACTURERS IN THE TEXTILES AND APPAREL INDUSTRY

While India provides various opportunities such as abundant availability of raw materials, low cost of labour and favourable government policies, many critical factors contribute to a manufacturer's success, both in domestic as well as international markets. These factors include:

Scale

Indian firms are typically smaller in scale when compared to their Chinese counterparts and there are fewer larger firms in India. For instance, on an average, Chinese firms have 1.5 times higher spinning capacity than those of India. Scale influences cost structure as it gives an opportunity to exploit economies of scale and an ability to attract customers with large orders. Firms must have managerial capabilities to design appropriate supply chains to manage this scale and also the workforce, especially in the case of garment manufacturing, which is order driven and hence requires full-time workforce even in lean seasons.

Well integrated and lean supply chains: Shorter cycle and delivery times

The Indian textile industry has a long and complex supply chain. This affects not only the cycle times, but also the delivery times. The average cycle time in the Indian textile industry is about 45-50 days, which sometimes extends to 80 days. The mean delay in the supply chain from procurement of raw materials and to export of finished goods is 15.5 days. Shelf life of fashion driven products is very short (approximately 45days), hence such delays are untenable. These delays not only affect time-to-market, but also Work-in-Progress (WIP), variability of supply chain and hence the cost. Therefore strong deployment of industrial engineering with particular emphasis on cellular manufacturing and JIT systems, in order to establish lean supply chains is extremely crucial for manufacturers. Presence across the value chain, vertical integration and investment in captive power units helps in effective demand assessment, resulting in greater control over the supply chain and cost reduction.

Customer-centricity in products and brand competitiveness

A review of products imported by the US from China reveals that the top three products in terms of percentage increase in imports belong to the synthetic products category. However, Indian products don't feature in this list. Synthetic products contribute to nearly 50 per cent of the global trade and India lacks a prominent position in this segment. This is also true of other segments such as nano-textiles, home textiles and industrial textiles. This shows that a clear understanding of the demand in world markets and hence developing product portfolios to cater to that demand is crucial for increasing market share.

Products with higher fashion content ,such as embroidery and sequins have gained greater response in the EU and US markets. India has significant strength in value addition and fashion content. Manufacturers must develop the ability to leverage these strengths to gain competitiveness in the export markets.

The Indian consumer's expenditure on branded apparel is increasing as indicated by the growth of branded apparel at 25 per cent. To match up to this growing market, manufacturers must make significant investments in brand creation and promotion.

Collaboration with foreign counterparts

India is slowly emerging as a good out-sourcing destination for large retailers in US and EU markets. To take advantage of these trends, Indian manufacturers can enter into collaborative arrangements with foreign players, thereby gaining entry into international production, sourcing and marketing networks. This will not only give them access to international markets, but also provide them a scope for gaining technical and marketing expertise from their foreign partners.

ATTRACTIVE STATES AND STATE SPECIFIC INCENTIVES

Several states in India offer an attractive investment climate for players looking to enter the textiles and apparel market. Apart from the specific incentives and support offered by the state governments, factors such as infrastructure availability, manpower availability and general standard of living are also parameters that affect a company's investment decision. An assessement of different states in India along the following parameters has been made:

- Availability of factor conditions
- Specific incentives

An assessment of the key states which appear attractive for this industry, based on these parameters, is given below.

HARYANA

Factor Conditions

Haryana has a well established textile sector. The state produces textiles and RMG worth US$ 1 billion. Textiles contribute to 27 per cent of the capital investment and 15 per cent of the exports from this state.

It has abundant availability of raw materials, especially cotton and wool, as well as a large number of garment manufacturing units. It offers easy access to key buying centres such as Delhi and Gurgaon. The state also has a large labour pool with low labour costs at US$ 8 per month.

Specific Incentives

Fiscal Incentives

Haryana Investment Promotion Board develops a customised set of incentives for projects in the textile sector of value above US$ 0.14 million.

Non-fiscal Incentives

The Haryana Government is actively involved in developing conducive ecosystems for the textile sector. It has set up a footwear and a leather garments park in Karnal, a textile cluster in Panipat, which is one of the largest textile clusters in India and is proactive in setting up textile-promoting SEZ's and FEZ's (Free Enterprise Zones).

ANDHRA PRADESH

Factor conditions

The state of Andhra Pradesh is one of the major exporters of textiles in the country at US$ 90 million in 2003-04. It has an abundant supply of raw materials and production facilities. Andhra Pradesh produces 2.6 million bales of medium and long staple cotton. It ranks second in the production of raw silk, fourth in the production of wool and fourth in the number of textile mills in India.

There are around 70 spinning mills in the state with a total spindleage of 18.3 million and 9 open-end spinning mills with 5,716 rotors. About 1,050 weaving units with a production capacity of 750 million metres of fabric are located in the state. It is one of the leading textile processing centers with over 100 units and produces 13 million metres of cotton cloth per annum The state has good power infrastructure- it is the third largest power utility in the country with a total power generation of 10,273 MW. Andhra Pradesh is amongst the leading states in India that have made a significant progress in power infrastructure-generation, transmission and distribution.

Specific Incentives

Fiscal Incentives

- 100 per cent reimbursement of stamp duty, transfer duty and registration fee on all textile units
- All textile units are exempt from zoning regulations and conversion fees
- Units are exempt from corporate tax in SEZs besides the tax on exports and imports
- Special incentives for textile units on power tariffs, as per the new Industrial Policy
- Incentive of US$ 110 per worker employed in textile parks

Non-fiscal Incentives

- Encourages spinning mills with a capacity > 12,000 units
- By 2008, all major textile and apparel houses will be permitted to produce captive power by utilisation of natural gas
- Textile parks of area greater than 25 acres inside the city and greater than 5 acres outside the city will be under urban land ceiling related exemptions

GUJARAT

Factor Conditions

The textile sector contributes 23 per cent to the Gross State Domestic Product (GSDP) of the state. It contributes 12 per cent to the total textile exports of the country. Gujarat also produces 40 per cent of the country's art silk fabric.

The state has a well developed textile machine industry and also various institutes for textile product design and development, like the National Institute of Fashion Technology (NIFT).

Specific Incentives

Fiscal Incentives

- 20 per cent credit- linked subsidy for setting up power-looms
- 5 per cent interest subsidy under TUF
- Capital subsidy of 10 per cent in processing sector
- Interest subsidy of 3 per cent p.a. to a new unit in the textile sector
- Interest subsidy of 3 per cent p.a. on purchase of capital equipment under TUF

TAMIL NADU

Factor conditions

Tamil Nadu has the largest cotton textile industry cluster in India which contributes to 39 per cent of the total production in the country. The country's largest textile cluster, Tirupur, is also situated in Tamil Nadu. This cluster accounts for 90 per cent of the country's cotton knitwear exports. The exports of the Tiripur cluster for the current fiscal year is US$ 900 million The state is emerging as a global sourcing hub for ready-made garments and hosts many global brands.

Specific Incentives

Fiscal Incentives

The state offers tailor made packages for investment over US$ 62 million in fixed assets. It offers exemption on Entry Tax and Sales Tax on imports of manufacturing units.

There are capital subsidies and exemption in Electricity Tax to companies investing in fixed assets. Subsidies for new industrial units located in government industrial parks have been increased to 150 per cent.

Non-fiscal Incentives

- Incentives for patent registration through a one-time reimbursement for the process
- Encourages establishment of textile parks
- Offers many weaver's promotional incentives. E.g. Prizes for best design, setting-up of marketing associations for Weaver's cooperative Societies

KERALA

Factor Conditions

Spinning is the single largest industry in Kerala- hand looms contribute to 10 per cent of the total exports. Cotton yarn is the most popular textile product, followed by knitted garments and fabrics.

The textile-processing complex at Kanjikode, the International Apparel Park at Thiruvananthapuram and the Industrial Export Park at Kochi, offer walk-in-and-manufacture environments.

Specific Incentives

Fiscal Incentives

Some of the key fiscal incentives offered by the Government of Kerala, for the textiles sector include:

- Textile units eligible for a state investment subsidy of 15 per cent of fixed capital investment, up to a maximum of US$ 30,000
- All investments exceeding US$ 11 million in this sector will be offered customised incentives except for tax-based incentives
- All textile units set up in industrial parks will be exempt from stamp duties and registration fees
- The Government provides grants for quality certifications from recognised institutes up to 50 per cent of the expenditure on obtaining the certification subject to a maximum of US$ 4,500

Non-fiscal Incentives

The state is introducing power-looms in a phased manner and offers customised incentives for conversion to power-looms. It also offers trainings to new workers in the hand loom weaving segments.

Conclusion and Key Take-aways

India's textile industry is an attractive sector that is poised for growth post the Multi-fibre Agreement (MFA) regime. The industry enjoys significant strengths and advantages, such as, availability of raw materials, labour, domestic market and supportive government policies.

The industry is also undergoing transformation, with an increasing number of MNCs establishing their presence to leverage India's potential. While the structure is characterised by small scale powered unorganised players, attractive government policies and increasing commitment of players across the value chain has led to the growth of vertically-integrated, large-scale units as well.

Many states in India in a move to tap their potential have designed specific incentives for the textile sector. Many MNC's have taken advantage of these opportunities and have succeeded immensely.

Efficient supply chains, superior technology and customer centricity and the ability to leverage the Government incentives are the key success factors for the growth of MNCs in this sector.

CASE STUDIES OF MNCS IN INDIA

ZIEGLERTEX-CHESLIND TEXTILE LIMITED

Zieglertex, a leading textile company in Switzerland, is involved in the business of apparel and home textiles, as well as yarns and fabrics

Global Overview of Zieglertex

Zieglertex, a Swiss textile company of international repute, is represented in India by Cheslind Textiles, which is involved in the manufacture of cotton yarn (accounting for over 90 per cent of its revenue). Zieglertex has a technical and marketing tie-up with Cheslind, which entered in the year 1994 and later also invested a small stake in the company.

Currently, Zieglertex also has a 2.09 per cent stake in Cheslind. The current activities of Zieglertex include customised apparel and home textiles, as well as development and distribution of its own brand of products. It also sells and distributes raw materials and semi-finished products, i.e. yarns and fabrics.

Zieglertex in India

Zieglertex is represented in India by Cheslind Textiles Limited, which has a state-of-the-art manufacturing facility at Bagalur in Hosur Taluk of Tamil Nadu. This facility is a 100 per cent Export Oriented Unit (EOU).The company is headquartered in Bangalore (Karnataka). Cheslind operates 64,000 spindles and its production amounts to approximately 5,500 tonnes of cotton yarn, per year. The main export markets of Cheslind for cotton yarn are Switzerland, Austria, Italy, France, Japan, Korea, Turkey, Mauritius and Hong Kong.

For every phase of the manufacturing process, Cheslind has technical tie-up with several foreign players. Cheslind

Indian Partner	Mode of Presence	Year	Business Focus
Cheslind Textiles	Technical and marketing tie-up	1994 (Entry)	Customised apparel and home textiles
Now a 2.09 per cent equity stake in Cheslind	Garmenting, weaving and processing	2007	Selling and distribution of raw materials and manufacture and distribution of semi-furnished products

is implementing Total Quality Management and has been accredited with ISO 9002 by Bureau Veritas Quality International (BVQI). It also has quality certification from TESTEX, Zurich, for adherence to Öko-Tex standard 100 for exports to Switzerland and other European countries.

Besides yarn, Cheslind offers a wide range of knitted fabrics (both grey and processed), made from its yarns produced in-house. Fabrics are exported to top end customers in Italy, Germany and Japan.

The company's turnover in 2005-06 amounted to roughly US$ 28 million, as against US$ 30.4 million during the year 2004-05. Despite a marginal decrease in the turnover, the profitability of the company has shown substantial improvement. The cash profit during 2005-06 amounted to US$ 3.07 million as against US$ 1.83 million in the previous year. A public limited company, Cheslind has roughly 22,000 shareholders and is listed on all major stock exchanges of India. India's premier financial institutes like the IFCI, IDBI, ICICI, State Bank of India and Canara Bank are backing this venture.

BENETTON

Benetton, one of the largest clothing manufacturers in Italy, has a global presence across 120 countries and more than 5,000 stores.

Global overview of Benetton

Benetton's clothing, primarily casual knitwear and sportswear for men, women, and children, is retailed through franchised stores, department stores and mega stores. Other products include sunglasses, watches and shoes. Though the development of its stylish collection is done in Europe, the company's designers travel around the world collecting ideas and putting them together, in order to create a collection that is acceptable to all the markets. The collection is a result of inputs on fabrics and styles from different designers, which results in one main collection. Significant care is taken to cater to the individual markets and introduce styles that will suit the requirements of these markets, but a large percentage of the collection is core and uniform across the global markets. Once the final collection is ready, Benetton franchisees from across the world assemble in Italy and pick up the products for their respective countries. They place their purchase orders with the parent company, which then ships the manufactured lines to the respective countries as per their orders.

Benetton's key brands are United Colors of Benetton (UCB) for casual wear and Sisley for fashion wear. Two other brands, Playlife and Killer Loop, are positioned as leisure wear and street wear brands, respectively. UCB is the largest contributor to Benetton's sales, having a share of roughly 74 per cent of the total sales, followed by Sisley at 19 per cent. Playlife and Killer Loop are comparatively low in terms of contribution, and constitute approximately 2 per cent of the sales, with the rest 5 per cent coming from other brands. The company's promoters, the Benetton family, continue to have the largest stake in Benetton (about 67 per cent) through Edizione Holding, its investment holding company. Benetton's Chairman, Luciano Benetton and Deputy Chairman, Alessandro Benetton, both belong to the promoter family. As of December 2005, Benetton had sales of Euro 1.90 billion and a net profit of Euro 96.6 million. It has almost 8,000 employees globally. It is listed on the stock exchanges in Milan, Frankfurt and New York.

Benetton in India

Benetton entered the Indian market in 1991-92, as a 50:50 joint venture with the DCM Group in Delhi, and launched its flagship label UCB. On 22nd December 2004, Benetton became a wholly owned subsidiary of the Benetton Group, Italy. UCB is today a leading brand in India with more than 106 stores across 45 cities in the country. The retail network is a mix of owned and franchised stores. Many of these are mega stores, with size more than 4,500 square feet with an increased focus on apparel for men, women and kids. The company is also looking at expanding the brand in the

Indian Partner	Mode of Presence	Year	Business Focus
DCM Group	50-50 JV with DCM	1991-92(Entry)	Launch of flagship brand UCB for men and women
Now a 100 per cent subsidiary of the Benetton group	More than 106 stores in 45 cities-manufacturing, sourcing, garmenting, as well retailing	2007	Mega-store retail chain with presence in garmenting and sourcing across the value catering to all segments of the market

Asia Pacific region and has recently opened stores in Male, Karachi and Kathmandu.

With the Indian market increasing in strategic importance for the Benetton Group at the global level, its fashion label Sisley was launched in India in 2006.The first outlet, nearly 3,500 square feet in size, was opened in Delhi and features a collection for men and women. Benetton India has a manufacturing unit in Gurgaon (Haryana). Almost 50 per cent of the garments required for Indian stores are manufactured here. The remaining sourcing for the Indian market happens through contract manufacturing from Ludhiana (Punjab), Delhi, Bangalore (Karnataka), Chennai (Tamil Nadu), Nepal and Benetton International. The designs are selected from the global collection, created by the product design and development team based in Italy.

India is also used as a market for Benetton Group's global sourcing especially for kids' apparel. In India, the company employs more than 300 people directly and provides indirect employment to over 5,000 people.

OTHER MNCS THAT HAVE ENTERED INDIA

Company	Indian Partner	Mode of Presence	Year	Business Focus
Levi Strauss & Co.	Wholly owned subsidiary	Designing and marketing of the parent brands	2003	Has launched close to 200 outlets and plans to enter Tier 2 cities as well its 'Signature' label
Carreman Michel Thierry Group	Banswara Syntex Ltd.	Joint venture in a weaving plant in Rajasthan	2006	Target US, UK and European markets with Lycra based fabrics
VF Corporation	The Arvind Mills Ltd.	Designing, sourcing and marketing of VF's licensed brands	2003	Lee and Wrangler brands have been very successful. The company plans to add three more labels

PROFILES OF KEY PLAYERS AND INDUSTRY CONTACTS

The Arvind Mills Ltd.

The Arvind Mills Limited is the flagship company of US$ 550 million of the Lalbhai Group. It is engaged in the production of the widest range of textiles. It is the world's largest exporter of denim and Asia's largest denim producer. Ranking amongst the top denim manufacturers of the world, 120 million metres of denim rolls out every year from Arvind's plants and is stitched into leading international denim brands in more than 70 countries. The company is also in the garment and men's shirting business under the brand names such as Newport, Flying Machine, Lee, Arrow. Besides textiles, the company also has EPBAX unit.

US$ million	2006-07	2005-06
Revenue	41	36
Net Profit/Loss	2.7	2.87

Raymond Ltd.

US$ million	2006-07	2005-06
Revenue	30.01	31.55
Net Profit/Loss	4.47	2.74

Incorporated in 1925, the Raymond Group is a US$ 310.35 million plus conglomerate having businesses in textiles, readymade garments, engineering files & tools, prophylactics and toiletries. This group is the leader in textiles, apparel and files & tools in India and enjoys a pronounced position in the international market. Raymond Textile produces pure wool, wool blended & polyester viscose fabrics and blankets along with furnishing fabrics. The denim division produces high quality ring denims. Raymond believes in excellence, quality and leadership.

Alok Industries Ltd.

Established in 1986 as a private limited company, Alok began with texturising of yarn and the company steadily expanded into weaving, knitting, processing, home textiles

US$ million	2006-07	2005-06
Revenue	6.96	5.54
Net Profit/Loss	0.44	0.33

and readymade garments. In 1993, it became a public limited company. In less than two decades, it has grown to become a diversified manufacturer of world-class home textiles, apparel fabrics and polyester yarns, selling directly to manufacturers, importers, exporters and retailers.

Vardhman Spinning & General Mills Ltd.

The Vardhman Group, established in 1965, under the entrepreneurship of Late Lala Rattan Chand Oswal has today blossomed into one of the largest textile business houses in India. At its inception, Vardhman had an installed capacity of 14,000 spindles. Today, its capacity has increased multifold to over 5.5 lakh spindles. At present, Vardhman Threads is the second largest producer of sewing thread in India. The grey fabric weaving unit at Baddi (HP), commissioned in 1990 with a capacity of 20,000 metres per day, has already made its mark as a quality producer of grey poplin/sheeting/shirting in the domestic, as well as foreign market. This was followed by entry into fabric processing by setting up Auro Textiles at Baddi, which currently has a processing, capacity of 1 lakh metres/day.

US$ million	2005-06	2004-05
Revenue	41.87	40.87
Net Profit/Loss	5.56	3.62

Indian Rayon and Industries Ltd. (IRIL)

IRIL is the Aditya Birla group's most diversified conglomerate. It is the second largest producer of viscose filament yarn in India and also the largest branded apparel company in India. It is a diversified company and operates a wide range of businesses. The focus areas are viscose filament yarn, carbon black, branded apparel, textiles and insulators. Indian Rayon has also made forays into insurance, software and Business Process Outsourcing (BPO).

US$ million	2006-07	2005-06
Revenue	76.81	60.32
Net Profit/Loss	4.98	4.23

Century Textiles & Industries Ltd.

Century Textiles & Industries was incorporated in 1897. Till 1951, it had only one industrial unit, the cotton textile mill. It operates Asia's largest composite mill dedicated to cotton textiles. Now, century has diversified into other businesses as well. Century is not only the trend setter in cotton textiles, but also built a presence in yarn, denim, viscose filament rayon yarn, tyrecords, caustic soda, sulphuric acid, salt, cement and pulp & paper.

US$ million	2006-07	2005-06
Revenue	14.69	13.3
Net Profit/Loss	0.53	0.36

Welspun India

Beginning with a small texturising unit in 1985, the Welspun group has significantly expanded and diversified its business. It now has interests in terry towels, LSAW pipes, pipe coating, cotton yarns, PFY, bathrobes and buttons. The Group's annual turnover exceeded US$ 443.36 million, of which more than US$ 254.93 million was from exports. It has ties with 12 out of the top 20 retailers in the world, namely Wal-mart, K-mart, JC Penny and Target to name a few. LSAW pipe clientele includes names, such as, Shell, Gazprom, ExxonMobil, etc.

US$ million	2006-07	2005-06
Revenue	14.47	22
Net Profit/Loss	9.19	11.79

Himatsingka Seide Ltd.

The company commenced its operations on February 15, 1985 and was promoted by Ajay Kumar Himatsingka and Dinesh Kumar Himatsingka. It manufactures natural silk fabrics under a 100 per cent export oriented unit scheme. The company undertook to set up a composite silk mill, with an annual capacity of 7,50,000 square metres for producing natural silk fabrics.

US$ million	2006-07	2005-06
Revenue	3.65	3.25
Net Profit/Loss	1.06	1.04

It produces a wide range of regular and fancy 100 per cent silk and silk blended yarns. Its weaving division, Himatsingka Seide, offers yarn dyed decorative, bridal and fashion fabrics. The entire operation of winding, doubling, twisting, dyeing, weaving and finishing is integrated under one roof.

Bombay Dyeing

Bombay Dyeing is one of India's largest producers of textiles. The company is one of the largest and oldest textile companies in the country and manufactures cotton and blended textiles. The product mix comprises of the suitings, shirtings, sarees, towels and bed linen. It manufactures Vivaldi brand of men's clothing is also is a manufacturer of DMT. The company was formed on 23 August, 1879 by Nowrosjee Wadia, at Mahim, Bombay and was the first mill to start dyeing of yarn in India. Textile Mfg. Co. Ltd. was set up in 1895. Nowrosjee Wadia & Sons became the managing agents in 1898.

Exchange Rate Used

Year	Exchange Rate (INR/US$)
2000-01	45.75
2001-02	47.73
2002-03	48.42
2003-04	45.95
2004-05	44.87
2005-06	44.09
2006-07	45.11

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India Brand Equity Foundation
c/o Confederation of Indian Industry
249-F Sector 18, Udyog Vihar Phase IV
Gurgaon 122015, Haryana, INDIA

Tel: +91 124 401 4087, 4060 - 67
Fax: +91 124 401 3873, 401 4057
Email: j.bhuyan@ciionline.org
Web: www.ibef.org
Website in the Russian language: www.ibef.org/russia