Consulting-Outsourcing-Capability Building

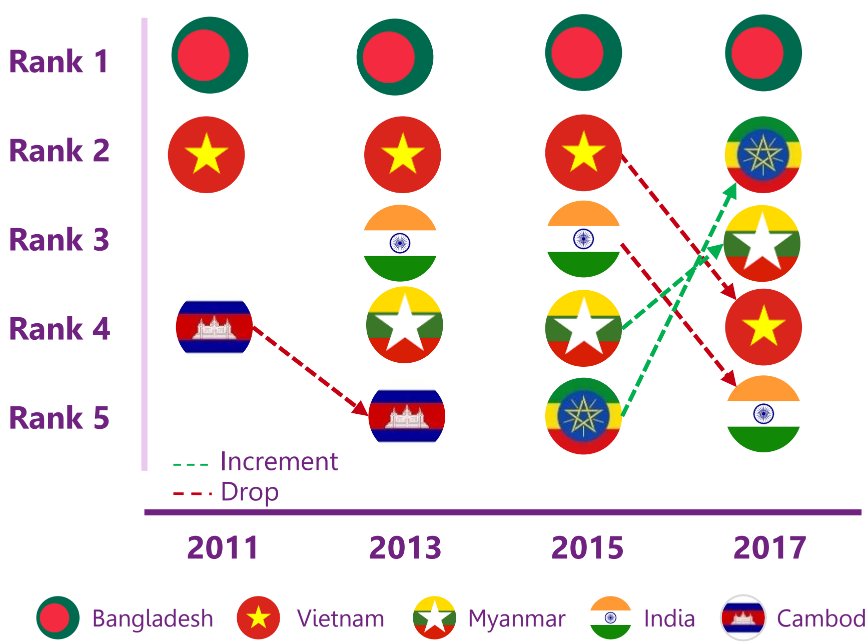
Can Indian's apparel export reach new heights?

Our perspectives and analysis

Why has India not been able to grow its apparel exports ?

Textile and Apparel (T&A) sector is big in India but less competitive in apparel

Exhibit 1 *Ranking of top sourcing destination by CPOs*



In 2016, the Indian Textile & Apparel (T&A) industry contributed to 14% of total industrial production, 4% to the country's GDP and 13% to the country's export earnings.

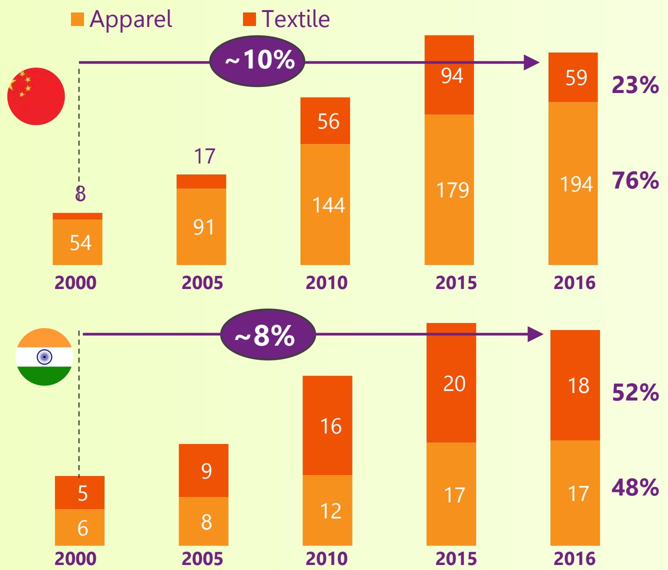
However between 2013 and 2015, **India dropped 2 positions** among CPO's ranking of top sourcing destinations. Meanwhile, Ethiopia and Myanmar got within the top 3 positions.

Why is India perceived to be a less attractive sourcing destination ?

This paper aims to provide some insights as to why India has not been able to join the apparel export bandwagon. We will also make some projections as to what will be the trigger point to attaining a greater part of the Lion' share.

India has higher share of textile exports out of total T&A exports

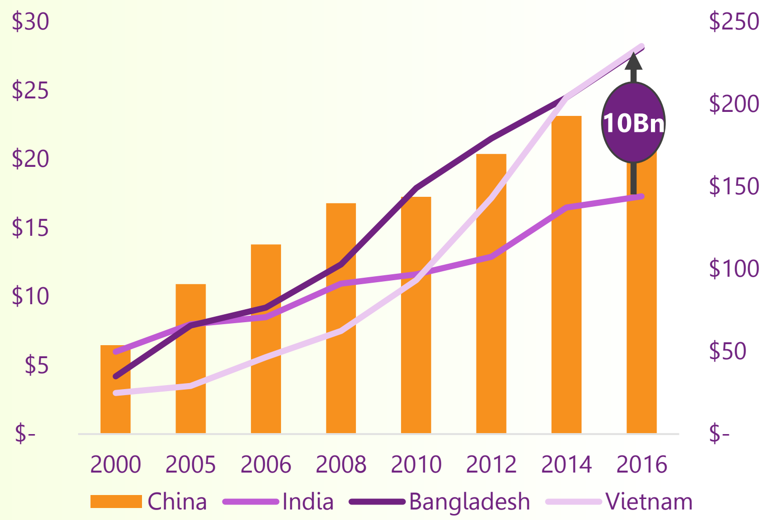
Exhibit 2 *Comparison of T&A export share*



Note: Export value in USD Bn

USD 10Bn apparel export gap with Bangladesh and with Vietnam

Exhibit 3 *Apparel exports in USD bn*



Note: Secondary axis denotes China export data

Insights

Since 2000, the Textile and Apparel (T&A) exports have grown **8%-10%** CAGR (Exhibit 2) for both India and China. The key point of difference is the share of apparel export to overall T&A exports. 77% of China's T&A comes from apparel compared to 48% in India. Smaller sourcing nations such as Bangladesh and Vietnam are also ahead of India when compared to apparel export value by a staggering USD10Bn. **The next section will shows that India had strong (er) potential in manufacturing and availability of raw material however lacks to perform up to its full potential due to under investments in the apparel export market**.

Source Exhibit 1 : McKinsey CPO Survey 2011,2013,2015,2017
Exhibit 2&3 : US Comtrade, FICCI Report , Technopak T&A Outlook, Weave Analysis

India has distinct advantages in terms of manufacturing infrastructure ..

Exhibit 4

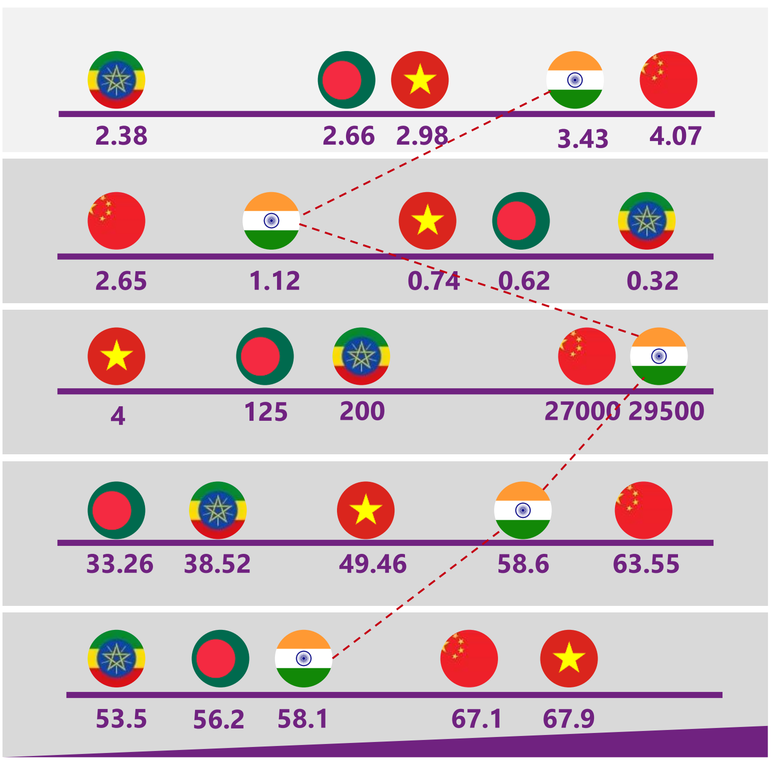
Value chain Category		Units				
Raw Material Availability	Cotton	'000 (170kg) bales	125	4	29,500	27,000
Raw Material Availability	Man-Made Fiber (MMF)	'000 tons	206	470	5,213	39,337
Yarn	Ring Spindles	Millions	6	6	50	120
Yarn	Rotors	'000	230	103	814	2400
Weaving	Shuttle Less Looms	'000	17	2.5	135	620
Weaving	Shuttle Looms	'000	13.5	17	2370	650
Apparel units	Apparel Units	-	5000	2000	11000	18000
Apparel units	Efficiency	%	39	40	48	57

...and also ranks well in the parameters considered by CPOs

Exhibit 5

Parameters	Weightage	Indicator
Infrastructure		World bank Logistics performance Index (LPI)
Labor cost and capacity		Cotton production per Year('000 bales)
Raw material		Labor wage (USD/Hr)
Economic and political stability		Euromoney Country risk
Compliance and sustainability		Sustainable Development Goal (SDG) Index

Performance of apparel exporting nations



Insights

India displays **good foundations in infrastructure, raw material availabil**ity (mainly Cotton) and efficiency (Exhibit 4&5). However, Indian's manufacturing is facing key issues such as use of **outdated equipment** (specially in power loom and handloom area), shortage of **synthetic fibers** and **increasing labor wages.**

Source:, Exhibit 4&5 - McKinsey CPO Survey, FICCI Report, Weave Analysis, Indexmundi, Technopak Apparel outlook

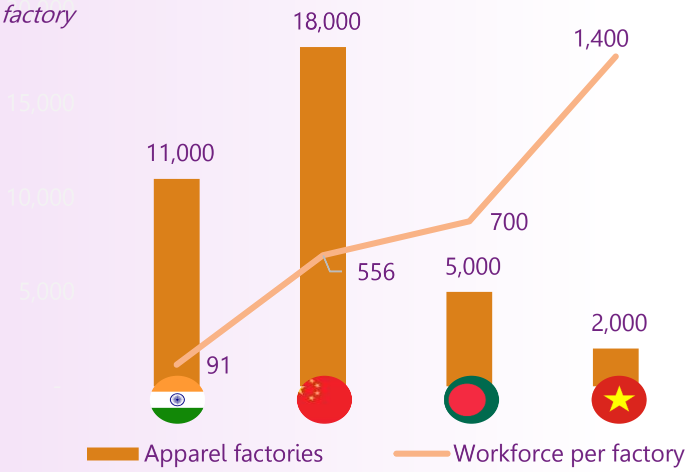
Four major roadblocks to India's apparel growth

1 Fragmented nature of industry

Average 'Workforce per factory' in India is **90-100 workers** compared to **700 in Bangladesh** and **1400 in Vietnam** (Exhibit 6). In addition India has the **second highest** number of **apparel units after China**. Therefore, it can be concluded that Indian apparel factories are **highly fragmented.**

The Government's incentives to small scale businesses has further contributed to the fragmented nature of the sector. This situation **prohibits economies of scale** and ability of **fulfill large order** sought after by MNCs.

Exhibit 6: *2013-count of factories and average workers per factory*

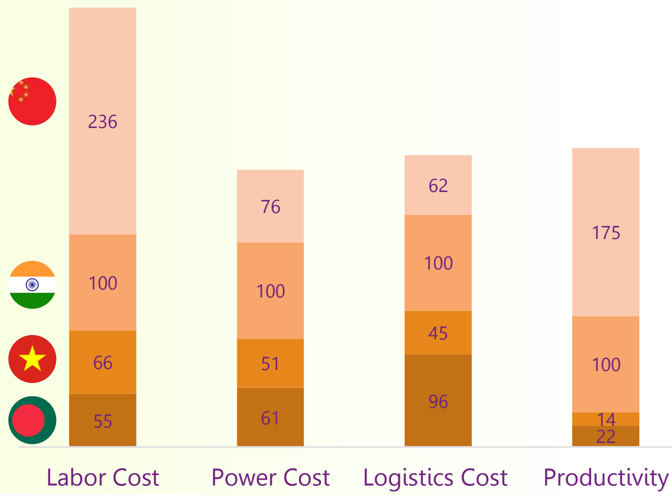


2 High production cost

Labor cost - Labor wages in India is higher than wages in Bangladesh and Vietnam. Although China has the highest wage rate, it compensates with higher productivity.
Power cost - India has irregular and expensive power tariff forcing manufacturing units to operate captive power plants, that are mostly run on diesel.
Logistics Cost – Shipping cost per container appears to be the highest in India compared to any other apparel exporting nations.

Other factors such as **high capital cost complex tax structure, appreciating Rupee** has further increased the production cost

Exhibit 7 *Cost breakdown analysis indexed to India*

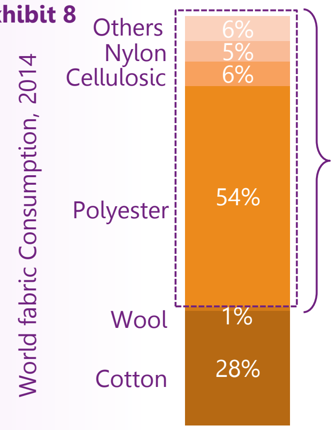


3 High Import Duties

Natural fibers such as Cotton and Wool constitutes **30% of global fabric** consumption (Exhibit8). The key battle in apparel is played now in **Man-Made Fibers** (MMF).
India's share of global MMF **production is only 7%** while China is leading with 66% share.

MMF import to India are taxed at **15%-25%,** increasing the input cost and limiting Indian manufacturers to produce a wide range of synthetic garments.

Exhibit 8



Country	MMF Production share
China	66%
EU	8%
India	7%
US	4%
Others	15%

4 Absence of Free Trade Agreement (FTA)

Under FTAs, low cost sourcing countries like Bangladesh, Vietnam have **duty free access in major textile markets of US and/or EU.**

Most CPOs consider sourcing from countries with favorable duty access to key apparel consumer markets. India has no FTA with any major textile market, making India's apparel export less attractive

Exhibit 9: *Import duty comparison*

Exporting Nations	US	EU
India	16.10%	12%
Bangladesh	16.10%	0%
Vietnam	16.10%	0%
China	16.10%	12%

Note: Vietnam enjoyed zero duty access till US signed out of TPP

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Supply chain planning expert

Source
Exhibit 6: McKinsey CPO survey 2013
Exhibit 7: India Skill Development report, Weave
Exhibit 8: PCI analysis, Textile world Report
Exhibit 9: Technopak outlook, Weave Analysis

However, the new Indian government is making positive changes

Road block	Initiatives	Description
Fragmented Nature of Industry	Attracting 'Foreign Direct Investment'	**100% FDI is now allowed** under the 'automatic route' in the textile sector; During FY10-15, FDI to Indian textile and apparel sector grew at **CAGR of 14.21%.** In recent years, large apparel manufacturing units have received significant share of FDIs, driving overall capacity of apparel manufacturing sector.
	Labor reforms	Government has recently allocated **USD 900Mn** towards **labor reform in the textile sector**. Under this proposal, government will **bear the entire 12% employer's** contribution towards EPF, improving the overall attractiveness of the sector. Therefore, small scale apparel units will now have more incentive to hire more workers
	Capacity building	To address the capacity and technology drawbacks, India has launched '**Scheme for Integrated Textile Parks**' to attract large players for private investment. Until now **74 textile parks** have been **approved** with **18 currently operational** and 32 under implementation. Under this scheme, textile major 'Arvind Mills' has invested $46Mn to build mega apparel facility in Indian state of Gujrat
High Production Cost	Investment support	Launch of TUFS (Technology upgradation fund scheme) to assist textile and apparel players towards modernization. **USD 24Bn fund allocation under TUFS** under India's 12th Five year plan
	Launch of single tax – GST	India recently implemented **single tax code – Goods and Services Tax (GST)**. This tax will subsume various fringe taxes – Octroi, excise duty, service tax, custom duty, surcharges and cess etc. GST also enabled **input tax credit** in which businesses can claim credit of taxes paid on purchases or expenses incurred for the business activities
	Capital subsidy	**Pradhan Mantri Credit scheme** for power loom weavers **Solar Energy scheme** launch to provide capital subsidy on installation of solar grid. **Integrated skill development scheme** for subsidy on training cost for textile sector. Scheme aims to train **2.76 mn workers**
High Import Duties	Fiber neutrality	Indian government has assigned 18% GST on import of Man-Made Fibers (MMF), a simplified tax rate compared to multi-tax scenario on various MMFs categories. India is **considering a fiber neutral tax regime** near future to improve the competitiveness of Indian apparel units in synthetic garment category
	Make in India	India is encouraging investment under '**Make in India**' initiative. Under this initiative various fiscal, tax and investment support is provided to business starting manufacturing in India across the textile value chain. The central focus of the initiative is to reduce dependencies on import by increasing domestic production
Absence of FTA	New trade agreements	Under the aegis of new government, India re-negotiating a Broad-based **Bilateral Trade and Investment Agreement** (BTIA) with the European Union (EU). A successful FTA will result in trade and investment flows in many sectors including textiles. Recent inclusion of textile items under **India-Mercosur Preferential Trade Agreement** can help India's textile and apparel exports, as textile items face prohibitive import duties ranging from 26 per cent to 35 per cent in Mercosur countries

Source: Ministry of textile GOI, Fibre2fashion.com, ibef

Domestic consumption will drive the change in the industry

India is projected to be 3rd largest economy by 2030, alleviating India's income level

Exhibit 10 Top 3 economy by 2030 (in USD Trillion)

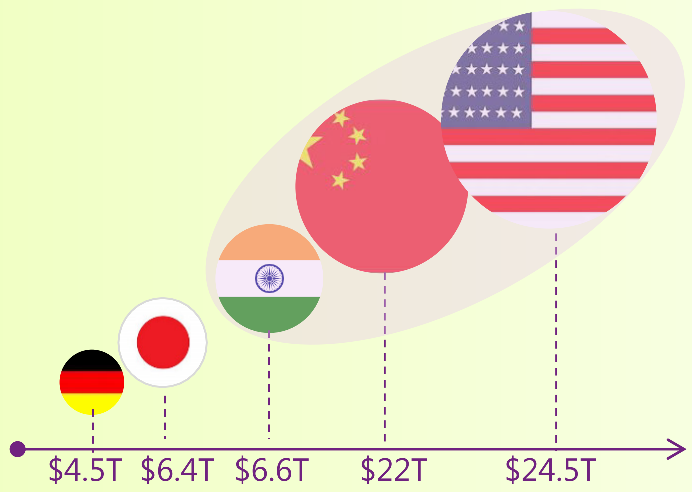
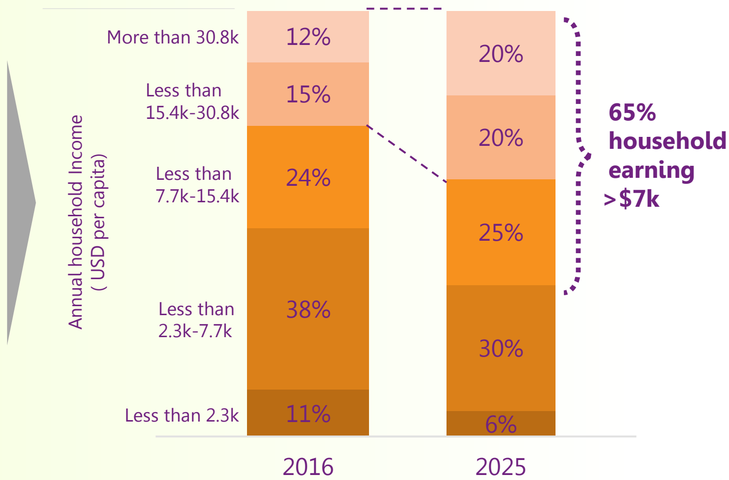


Exhibit 11 Rising Middle class



..and driving domestic consumption supported by increasing working population

Exhibit 12 Working population growth (Mn)

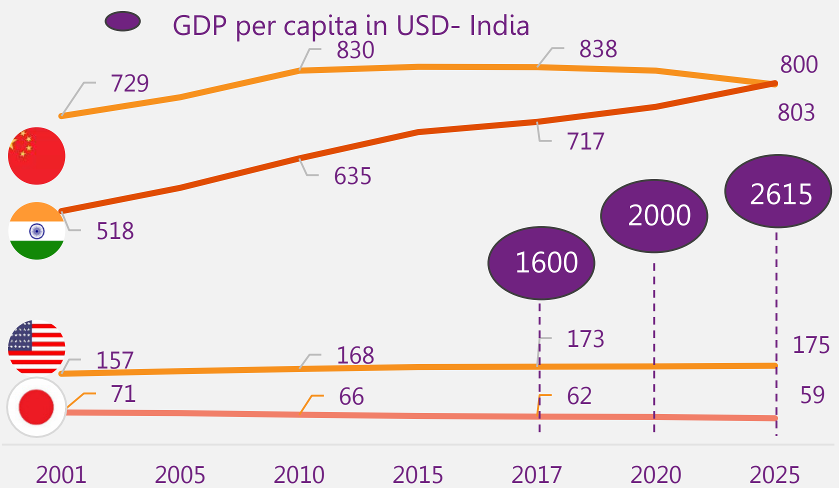


Exhibit 13 Domestic apparel market (USD bn)

Insights

India's GDP per capita is set to cross **USD 2000 by 2020 (Exhibit 13),** supported by a growing economy and large working population. This income level could be the **tipping point of domestic consumption.** MNCs looking to capture the **$100bn Indian market** (Exhibit 14) need to **manufacture/source 30%** of the **product locally** due to government regulation, pushing for **efficiency and higher capability** among apparel manufacturers. Unlike China, that expanded through exports before focusing on domestic market, India will have to first expand its manufacturing capability in the domestic market. With capacity improvement, technology investment and skillset enhancement, India can raise to the challenge. **Would this be sufficient to address the export gap ?**

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Source Exhibit 10 &11 - World Bank, BCG CCI Survey ,Weave Analysis
Exhibit 12 &13 - World bank, Wazir Advisors, Weave analysis

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