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Caught in a Cotton Web: What is Ailing Textile Hub Tiruppur?

Soaring cotton yarn prices have underscored why it's time for Tiruppur, and India, to cotton up to synthetics. Smaller neighbours Bangladesh and Vietnam have raced past us in global garment exports.


HARD AT WORK: T-shirt printing underway at Esstee Exports, a mid-sized firm in Tiruppur. (Photo: Janani Veluswamy)

Cotton yarn prices have been shooting up like the soaring mercury levels in Tiruppur, driven up by the relentless April sun. Both have been making the city's knitwear garment exporters sweat bullets. A candy (356 kg) of cotton can now leave a one-lakh rupee-sized hole in a yarn spinner's pocket. That hole was only half the size 18 months ago. Cotton yarn prices have followed suit too, with a hike of more than 100 per cent to upwards of `400 a kg—a big problem for yarn spinners, because the fine thread is really the backbone of this industrial city.

Nearly 500 km to the southwest of Chennai, Tiruppur is the largest knitwear hub in the country. The self-started cluster generates an annual turnover of $4 billion and employs around 700,000 people. By making and exporting cotton and cotton-blend T-shirts, dresses, sweatshirts, pullovers and other knitted clothes, mainly to the US, Europe, Australia and Canada, it accounts for a fourth of the country's total garment exports.

Oppressive as the heat itself, the increasing yarn prices have been particularly debilitating for the small and medium-scale garment exporters, who cannot afford a yarn-to-garment setup. "Yarn price hike is not new. Usually, it goes up by Rs 2, Rs 5 or even up to Rs 20 per kg. Now, it has been going up abnormally by something like Rs 30 and Rs 50," says Krish, Managing Director of Victorian Clothings.

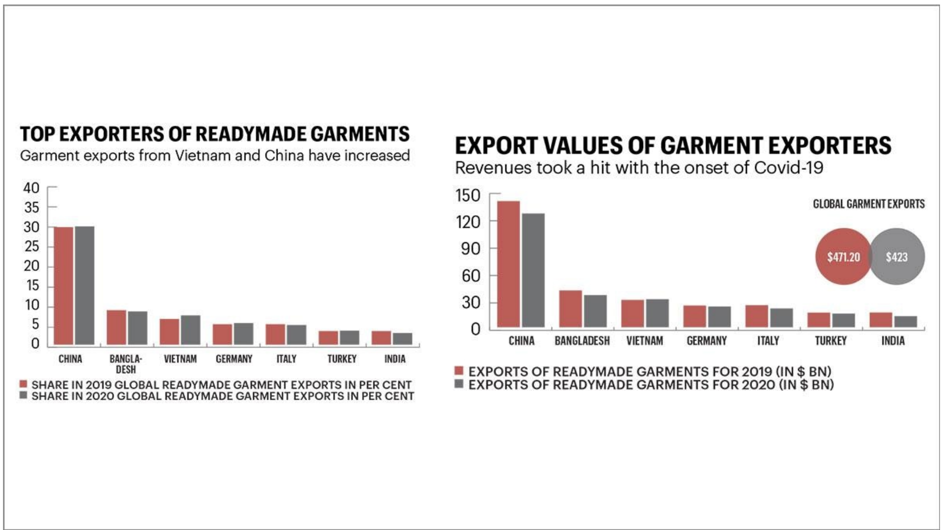
The fact is that inflation has driven up the cost of everything from paper to chemicals and dyes to freight charges. But yarn prices are pinching the exporters especially hard because it accounts for 45 per cent of a garment's cost. Buyers book orders three months in advance on agreed-upon rates, but with cotton yarn prices shooting up by the time of delivery, manufacturers end up selling their goods at zero-margin sometimes, the exporters say. "When it was a hike of something like Rs 20 per kg, the buyers were agreeing to absorb the increase into the price. Now when the price stands more than doubled, they have refused to do so anymore," says Ramu Raju, Partner at Fashion Knits, a Rs 75-crore business that mainly makes jackets for brands like Esprit. "Sometimes, we sell at break-even costs because we need the customers regularly. Because of the yarn price hike, I can't spoil my relations with the buyer," says Krish.

From a buyer's perspective, it's not possible to keep changing the garment prices in a showroom every time cotton yarn prices go up. The exporters say yarn spinners have a take-it-or-leave-it attitude because they have international businesses to rely on. Unlike garments, which are custom-made according to client specifications, yarn is a fairly standard product and can be sold to anybody. "We are stuck in between and our already-thin profit margins have taken a beating," the exporters lament. Krish (who goes by only one name) estimates his profit margins have halved to 5-7.5 per cent, from 10-15 per cent earlier. Raju estimates a similar hit to his margin. That also means lesser available working capital, additional loans, longer repayment schedules and increased interest charges.

K. Venkatachalam, Chief Advisor of the Tamilnadu Spinning Mills Association (TASMA), says the average yarn spinner's margins have reduced from 8 per cent to 5 per cent now because they have not passed on the entire hike in costs to garment manufacturers. "By mixing fresh cotton and old cotton, we are balancing prices such that we are able to offer it at Rs 430 a kg. If we had passed on the entire hike, it would have been above Rs 460 per kg," he says, attributing the unusual price hike to an artificial demand created by MNCs and traders who hoard the raw material in agreement with farmers. "Cotton-growing farmers also check the NYSE trading prices these days and think twice before selling it. That's why there is a shortage for domestic consumption," says D.M. Kumar, CEO of Eastern Global Clothing, a small-sized exporter. On the other hand, India is exporting cotton to neighbouring countries and imposing import duty on cotton, says CEO N. Thirukkumaran of Esstee Exports, which counts Guess among its clients. "Both ways we are stuck."

The government has intervened by temporarily withdrawing the 10 per cent import duty on cotton from April 14 to September 30, 2022, to boost supply from Australia, the US and Africa, and ease yarn prices until the next cotton harvest season in October. But the irony is that India is the world's largest cotton producer. Yet, Bangladesh—to which we export cotton—has become our biggest competitor, the exporters say. "We have allowed our cotton to be exported to the neighbouring countries. They have a 10 per cent duty advantage. So, they buy cotton from us, spin the yarn and sell it against us in the sense that we create our own competitors like Bangladesh and Vietnam," says A. Sakthivel, President of Federation of Indian Export Organisations (FIEO) and ex-chairman of Apparel Export Promotion Council (AEPC).

He is referring to duty-waiver pacts Bangladesh and Vietnam have with garment-importing nations. That's a 10 per cent cost benefit straightaway that Bangladesh offers over India. Add to that cheaper labour, and they become significantly more price competitive than us. If a basic T-shirt made in India costs Rs 100, it may cost Rs 75 in Bangladesh, and Rs 70 in Cambodia and Vietnam. American and European buyers simply cannot afford to not place their orders with them, exporters say. "So, large-volume business of 100,000-200,000 pieces a style goes away to Bangladesh. Their costs, line production capacity and line scaling are all suited to that. Only the orders they are not able to meet come to India," says Krish.



These small neighbouring nations contribute 8.6 per cent to the global share, while India's share has stagnated at a minuscule 3.4 per cent, leaving us at seventh position. "India's garment exports over the past five years have remained between $16 billion and $17 billion. When we were doing $5 billion-worth of garment exports, Bangladesh was doing $3 billion. Now, they are at $40 billion. Vietnam was at $1 billion, now they are at $27 billion, again because of duty-free status [of exports] to Europe," says Sakthivel.

Concerning as the cotton yarn price hikes may be, the unnatural surge is only a relatively recent phenomenon. But it reveals the deeper issue keeping Tiruppur and, by extension, India from exporting more—dependence on cotton, a seasonal crop.

Even 50 years ago, Tiruppur was just a small town on the way to Coimbatore. A 'smart city' now, its streets bear the unmistakable stamp of its pumping heart—the knitwear industry. The lanes looping in and out of the main roads—much like a knitted fabric—are lined with shops that could topple under the weight of bundles of buttons, zippers and laces; outlets selling sewing machines and offering repair services; homes doubling up as mini-factories; and a host of other shops that play some role in clothing Americans and Europeans.

It has proved to be a resilient city after several shocks like the 2008 economic crisis, a 2011 Madras High Court ruling against its effluent discharging plants, demonetisation and GST. Just as global demand for garment exports was picking up following a receding Covid-19 pandemic, the yarn price hike is breaking its back again.

"Indian exports happen mostly on cotton or a mix of cotton," says Esstee's Thirukkumaran. But cotton-based exports have reached their saturation point as far as India is concerned because all the basics have gone to Bangladesh, exporters say. It may increase, but it's not going to double our global share. "Getting a five-pocket jeans or shorts made in India will simply not work out for buyers. The cost of making it here is double," says Raju. In fact, some Indian brands and retailers also get their basic shirts, T-shirts and trousers made in Bangladesh, the exporters add.

China, the juggernaut with more than 40 per cent market share, is clobbering India by taking the synthetic route. "They are masters of man-made fibres (MMF) and apparels made from them—mainly polyester, polyester blends and nylon. It's what goes into making swimwear, winter items and long dresses worn by women," says Raju. Sakthivel says competitors' portfolios consist of 15 per cent cotton and 85 per cent polyester garments. “We are doing it the other way around. We should aim for a 50:50 balance between MMF and cotton.”

In India, you’ll see most youngsters wearing only polyester T-shirts because it is easy to maintain, says Raju. A good 50-60 per cent of the global trade is in MMF, says Thirukkumaran. “But we lack the technical know-how to make, say, 100 per cent modal, 100 per cent viscose or polyviscose fabric of international standards at competitive rates. The processing is very costly here.”

The process of converting yarn into wearable garments involves crucial fabric processing functions like dyeing, washing and combating. They make the raw fabric suitable to be cut and sewn into garments. The nuances such as which needle gauge to use to knit fabrics, how to dye and how to control its shrinkage differ for synthetics and cotton. But before getting to the fabric stage, there are only a handful of companies that make high-quality synthetic yarns. Surat has a lot of polyester mills, but they do not match up to the quality offered by China, South Korea, Taiwan or Thailand, the exporters say.

“All the fabrics that go into women’s lingerie come from Thailand. What India makes cannot be used,” says Raju. Besides, the exporters say, synthetic fabric manufactured here is 30 per cent more expensive than what China does. “I might as well buy it from China,” says Krish. So the exporters question how China’s orders can come to India, adding that they need training in these areas.

“The performance-linked incentive (PLI) scheme will help us with joint ventures, collaboration and technology transfer from South Korea and Taiwan to make synthetic fabrics. It may take a year or so for round-the-year production to happen and our exports will also increase,” says Sakthivel. The SME garment exporters of Tiruppur may not directly participate in the Centre’s Rs 10,683-crore scheme since it requires a minimum investment of Rs 100 crore. But they are optimistic. “The PLI scheme will bring in big players to install processing houses and that’s how the weak link (in MMFs) can be minimised,” says Thirukkumaran.

There’s also a lot of cheer around India’s recent free-trade agreements (FTAs) with Australia and the UAE. The FTAs, which will take time to kick in, essentially facilitate India to export garments duty-free to them and import duty-free cotton from them. Similar pacts with the UK and EU are also on the anvil, which the exporters say will be game changers.

But is our house in order to meet a possible surge in demand, some wonder.

It’s hard to turn a corner in this city without finding a bakery. ‘Tea, coffee and snacks’ announce their boards, sometimes even in Hindi to appeal to the growing migrant workforce. In fact, it’s a marker of the presence of a garment factory nearby, as workers throng the outlets during their breaks.

Today, the exporters estimate, about 70 per cent of Tiruppur’s workforce is from North India. People from around Tamil Nadu simply don’t want to work in garment factories because they are not seen as sophisticated jobs like those involving computers. The minimum a garment worker can earn is Rs 350 per eight-hour shift. The rates can go up to Rs 500 a shift for a top-notch tailor. A single-needle operator can even earn Rs 1,000 a shift. Including overtime, a skilled tailor can earn around Rs 15,000 a month. But even a data-entry job with a Rs 10,000 salary is preferred over it, rue the exporters.

UNRAVELLING Exporters say scarcity of skilled labour and rampant absenteeism drag down factory productivity and drive up garmen

Labour availability is a perennial problem for them. Sakthivel estimates that there is always a 10 per cent shortage— that is, 50,000-60,000 workers. Others say it could be at least twice as much. “Tomorrow, if someone advertises that they have 50,000 skilled tailors, all of them will get jobs in Tiruppur the next day. I can myself employ 70-80 tailors immediately,” says Raju.

A weekly salary concept, high attrition, rampant alcoholism, especially among the local labourers, and ensuing absenteeism take a toll on productivity. “This weekly salary concept is only killing us because we don’t have a hold on the people. I tried to make it monthly but labourers didn’t want it. Now they have money in their hand every week, and they don’t want to give that up,” says Raju. He says his factory is 20 per cent under-utilised. Again, Sakthivel differs. “Within the export category, maybe 75 per cent factories give out monthly salary. Only 25 per cent are on a weekly salary.”

It’s not a problem for the bigger factories, which can provide hostel for workers. But those that cannot have to contend with lower productivity, like in the case of Eastern Global Clothing. CEO D.M. Kumar estimates Tiruppur is working only at 30-35 per cent efficiency, while Bangladesh functions at an enviable 80-85 per cent. “If I’m working only at 35 per cent of installed capacity, the fixed costs get divided among fewer pieces. So, my rates go up. But because of higher efficiency in Bangladesh and Vietnam, their costs get divided among more pieces and the garment costs less.”

With so many challenges, how can we keep blaming yarn prices alone, he asks. Take the matter of infrastructure: “Many buyers who import from China and don’t consider India at all say it takes about 30-36 hours to come to Tiruppur, that too after multiple stops.” But they can choose from 30-40 flights to land in Guangzhou or Shanghai from New York in 12 hours, he adds. Even today, when virtual meetings are the order of the day, seeing is believing for international buyers, who want to look at the products before placing big orders, he says. “Tomorrow, if the government slashes yarn prices by 50 per cent, can Tiruppur increase its export share? In three years, can India double its share to 6 per cent? Definitely not!”

Any industry segment China operates in, they go in with a road map and provide infrastructure support like labour housing and treatment plants upfront and ask the companies to make use of it to achieve the envisioned growth, says Tiruppur Exporters' Association President Raja M. Shanmugham. "That's why despite not having any FTAs with any of the importing nations, they are able to hold 40 per cent of the export market share, not just in this category, but in any category they operate in."

The Tamilnadu Exporters and Manufacturers Association (TEAMA), representing 450 members, is trying to tackle the labour problem by setting up a garment manufacturing park in Vedharanyam. The town, 400 km away from Tiruppur, has a lot of women who can be easily trained, says President M.P. Muthurathinam. The companies and their ancillary functions will remain in Tiruppur, but garment assembly will be shifted, he clarifies. "The park, funded by the state and central governments, has been operational for about a year now. Thousands of women have begun working there. At full capacity, 10,000 people can work there." Labour costs also work out cheaper and they have identified seven locations like Cuddalore, Thiruvannamalai and Sivakasi to replicate the model in, he adds.

But this model won't work for high-fashion garments with embroidery and embellishments because it involves a lot of back and forth between various departments, other exporters say. Krish is a lot less optimistic. "Manchester was like Tiruppur 50-60 years ago. They had cotton mills, manufacturing and all processes. Because of labour cost increase, they began outsourcing to India and they became an importer. Maybe in another 20 years, we will also become garment importers and send it to stores."