Source Financial Express, le 14 decembre 2022

Spinners, apparel hubs in crisis as US and EU orders dry up

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If India's exports of goods fell 16.6% on year in October, the first monthly contraction in 19 months, the fall had begun in the two largest labour-intensive sectors — textiles & clothing and gems & jewellery — much earlier and was even sharper. Consider this: the country's exports of readymade garments fell to a 28-month low of $988.7 million in October; cotton yarn exports plunged by 46% to $719 million in the month; knitwear exports from the largest hub Tirupur declined 17.4% on year in August, 33.1% in September and 39.8% in October. Textile and garment exports as a whole contracted 8.5% to $18.3 billion in the first half of FY23 from a year before, far under-performing a 17.8% growth in overall merchandise exports.

Similarly, gross exports of gems & jewellery plummeted 22.4% in October to $3.135 billion.

With the country's top two textiles and apparel export markets — the US and the EU — witnessing a sharp demand slowdown, shipments will continue to remain under pressure in the coming months. Given the multiple shocks that weigh on the global economy and the forecast that growth in world trade volumes will fall to a dismal 1% next year, the short-term outlook for apparel exports is grim. A moderation in input costs, a fall in ocean freight and an easing of congestion at key shipping routes, may give some relief to exporters at this juncture, but may not suffice to avert a crisis.

In fact, there has been an erosion of India's export competitiveness in textiles and apparel segments in recent years and the target to accelerate the shipments to $100 billion in five years looks daunting, if not impossible.

"The current fiscal is the worst in history for the entire textile value chain. Record high domestic cotton prices between April-August added to the woes," says Rahul Shah, member, Textile Export Promotion Council. For the first time in history, India had to import cotton yarn in June and July, he notes.

Sivaramakrishnan Ganapathi, executive vice chairman and managing director at Gokaldas Exports, however, remains optimistic. "Shipping constraints have reduced compared to last fiscal. Also, ocean freights have eased considerably," he says, adding that the medium- to long-term prospects for Indian apparel exports are likely to remain strong. The company, he says, is "closely watching" the demand scenario in the US market.

A top executive with a leading Ahmedabad-based company says that it will likely be a "long winter in Europe" due to the energy crisis. Moreover, high inflation and resultant tight monetary policy in the US and EU, possible recession in the west and continuous depreciation of euro will make things even tougher for India's textile and apparel companies, he adds, on condition of anonymity.

Industry players also note that cost of living in Europe has increased considerably in the wake of soaring gas and crude oil prices, caused by the Ukraine war. All these factors, they observe, have seriously dented the overall demand for products in the entire textile value chain — from yarn, fabrics, to made-ups and garments.

Cotton yarn manufacturers are facing even bigger challenges. A sharp decline in exports has reflected on nearly 600-odd spinning mills in Gujarat, where 60% of the total production is exported, mainly to the US and EU, says Gautam Dhamsania, secretary, Spinners Association of Gujarat.

Though domestic cotton prices have fallen compared to all-time high levels a few a months ago, these are still hovering at elevated levels of Rs 68,000-Rs 70,000 per candy (356 kg per candy), higher than international prices. According to Dhamsania, spinning mills in the state are incurring losses of Rs 15-20 per kg of yarn and are running below 60% capacity.

Knitwear exports from Tirupur cluster, one of Asia's largest export hubs, have been hit hard by the slowdown in the US and the EU, which conventionally accounted for over 70% of the shipments. Year-on year decline in shipments started in August and has since been sharper. Export of knitwear from the hub fell to $0.264 billion in October from $0.329 billion in August.

While new orders have dried up, many buyers in the US and EU have withdrawn past orders citing unsold stocks. Exporters in the town hope that with in the Christmas and Thanksgiving season, the EU and US buyers will be able to clear the stocks and book fresh consignments.

Kumar Duraiswamy of Eastern Global Clothing, one of the major exporters from Tirupur, says: We have been impacted since August. Around 30-40% of the exporters are working with half the capacity, but are still not resorting to layoffs.” Apart from the summer season orders from western markets, Tirupur exporters are also pinning their hopes on demand from West Asia, which accounts for 15% of the exports.

Chintan Parikh, founder and chairman of of Ahmedabad-based Ashima, believes uncertainty is prevailing due to recession in the US market. “It is difficult to forecast exports prospects in the current situation, but we are hoping for things to improve in coming months,” he adds.

Amidst all these odds, the easing of the global logistic movements, a narrowing of the spread between international and domestic cotton prices, and fresh arrival of the fibre are a few positive factors, says Chintan Thaker, group president at Welspun Group. While export sales are down, the ongoing wedding season in the country too has come to the rescue for the Indian textile and garment sector, says Himanshu Bodawala, president of Suratbased South Gujarat Chamber of Commerce & Industry.

Given the difficult situation, the Tirupur exporters have started exploring possibilities in “man-made fibre” (MMF) based exports, shifting away from the traditional cotton-centric approach. Big US and EU retailers and brands may scale up buying from India if the MMF is used for knitwear manufacturing, according to Tirupur industry circles. “We are going to create an ecosystem to develop MMF-based products,” Duraiswamy adds. Also, thanks to India’s free trade agreement with Australia, the Tirupur exporters are now looking at making a footprint Down Under. The UK market also look promising for exporters from the garment hub.

However, it is clear that the textile and garment industry, the largest employment creator after agriculture, needs policy support to meet the targets set. A historical policy bias towards the cotton-based value chain when global consumption pattern veers towards manmade fibre and technical textiles products, domination of small and medium businesses with limited scale, inflexible labour rules for decades, and high logistics costs have hurt this sector. The government came out with a Rs 6,600-crore package for garments exporters in 2016. It also allowed fixed-term employment to address the issue of seasonality in order flows. However, the relief hardly paid off, as other structural bottlenecks continue to persist.

The government announced a Rs 10,683-crore production-linked incentive scheme for only manmade fibre-based and technical textiles products, and selected eligible companies this year. Since the incentive offtake is now expected to be lower, it’s planning to roll out a second PLI scheme for the sector.