



Confederation of Indian Industry

CII Southern Region

Industry and Economic Update

Textiles

October-December 2009

TABLE OF CONTENTS

RECENT DEVELOPMENTS	3
EXPECTED TWO PERCENT INCREASE IN DOMESTIC COTTON PRODUCTION DURING CY2010	3
INDIA'S COTTON BALANCE SHEET	4
FORECAST NINE PERCENT INCREASE IN DOMESTIC COTTON CONSUMPTION IN CY2010	5
RECENT RECOVERY IN DOMESTIC SYNTHETIC FIBRE PRODUCTION AND CONSUMPTION	6
CONTINUING DECLINE IN WORLD FIBRE PRODUCTION AND CONSUMPTION IN 2008-09	7
COTTON CONSUMPTION TO INCREASE IN CY2010, EXPECTED DECLINE IN PRODUCTION	10
STRONG Q2FY2010 RECOVERY IN DOMESTIC TEXTILE AND CLOTHING PRODUCTION	11
RECENT INCREASE IN WORLD FIBRE PRICES	15
SYNTHETIC FIBRE PRICES INCREASED IN RECENT MONTHS	17
MILLS CLOSURE	20
INVESTMENTS AND PROJECTS	21
TRADE DEVELOPMENTS	23
INDIA'S TRADE DATA INDICATE A SHARP EXPORT SLOWDOWN IN FY2009	23
US IMPORTS	24
SINCE 2001, FIRST ANNUAL DECLINE IN IMPORTS IN 2008	24
SHARP DECLINE OF 14% IN US T&C IMPORTS DURING JANUARY-JUNE 2009	26
DECLINE IN US UNIT IMPORT PRICES CAUSED BY LOWER DEMAND	28
SHARP DECLINE IN US IMPORTS FROM INDIA	30
EU IMPORTS	32
SHARP DECLINE IN EU IMPORTS DURING 2008 AND 2009	32
POLICY DEVELOPMENTS	37
NO PLAN FOR CONVERTING HANDLOOMS INTO POWERLOOMS	37
FUNDS FOR COTTON CORPORATION OF INDIA	38
ASSISTANCE TO TEXTILE WORKERS RENDERED JOBLESS	38
OTHER DEVELOPMENTS	38
REVIEW OF FINANCIAL PERFORMANCE	39
SOUTHERN REGION	39
INDIA	43
SHORT-TERM OUTLOOK	46

RECENT DEVELOPMENTS

Expected Two Percent Increase in Domestic Cotton Production during CY2010

India is the second-largest producer of cotton (behind China) in the world with production of around 4.93 million tonnes (mt) in cotton year (CY)¹ 2009, accounting for around 21% of world production.

During CY2009, lack of rains in the Central and Southern States (where large areas depend on monsoon for cotton sowings) had affected sowings during June-July 2008. However, receipt of good rains from the last week of July 2008 helped to revive sowings and made up for the fall in acreage to a large extent. In the North Zone, acreage declined in Punjab, Rajasthan, and Haryana. Sowings in the Central zone lagged behind in Gujarat and Maharashtra. However, acreage in AP increased 24%. Based on the cotton planting estimates in various states, area under cultivation declined 0.1% in CY2009 to 9.41 million hectares (mha). However, yields declined 7.2% to 526 kg/ha. Preliminary estimates about the coverage by Bt. Cotton in 2008-09 indicate that there is wide variation between States, from 65% to 95%. Overall coverage under Bt. Cotton is expected to increase 21% in CY2009 to 7.4 mha, and coverage under Bt. Cotton is expected to increase from 64% in CY2008 to 80% in CY2009. Because of lower yields, India's cotton production is expected to decline 5.5% in CY2009 to 29 million bales (or 4.93 million tonnes or mt).

In the wake of firm prices in CY2009, there are indications that India's cotton acreage may increase from 9.41 mha in CY2009 to 10.12 mha in CY2010. Steep hike in minimum support price (MSP) of cotton resulted in better returns for farmers. An increased number of farmers have opted for cotton production, after benefiting from high prices last year. With the revival of monsoon rains in August 2009, cotton planting in the central and southern states recovered strongly as farmers shifted to shorter duration cotton vis-à-vis other competing crops (paddy, sugarcane, tobacco, etc). Preliminary data for plantings for CY2010 cotton crop are now available. The area under cotton in the North Zone (comprising the States of Punjab, Haryana and Rajasthan) may increase 17% in CY2010 to 1.50 mha. In the Southern Region (comprising AP, Karnataka, and TN), cotton planting has progressed well in Karnataka with adequate moisture availability. However, planting in AP progressed in spurts due to the erratic monsoon rains during most of July and August. Because of a 6% decline in acreage in AP, acreage in the South Zone is expected to decline 9% to 1.74 mha in CY2010. In the Central Zone (comprising Gujarat, Maharashtra, and MP), plantings were delayed because the delayed monsoon through mid-July 2009. However, following occasional monsoon showers from late July through mid-August, plantings progressed in spurts. Provisional estimates indicate an 11% increase in plantings during CY2010 to 6.77 mha.

¹ India's cotton year is from October to September. Thus CY2009 refers to October 2008 to September 2009

India's Cotton Acreage and Production

CY	Area (mha)			Production (mt)		
	2009	2010	Growth	2009	2010	Growth
AP	1.399	1.319	-5.7%	901	816	-9.4%
Gujarat	2.354	2.624	11.5%	1,530	1,615	5.6%
Haryana	0.456	0.522	14.5%	238	221	-7.1%
Karnataka	0.408	0.395	-3.2%	153	153	0.0%
MP	0.625	0.646	3.4%	306	306	0.0%
Maharashtra	3.142	3.503	11.5%	1,054	1,139	8.1%
Punjab	0.527	0.536	1.7%	298	272	-8.6%
Rajasthan	0.302	0.444	47.0%	128	170	33.3%
TN	0.109	0.028	-74.3%	85	85	0.0%
Others	0.084	0.103	22.6%	238	238	0.0%
Total	9.406	10.120	7.6%	4,930	5,015	1.7%

Source: Textiles Commissioner, IMaCS Analysis

However, yields are expected to decline for the second successive year, primarily because of deficient monsoons, which delayed planting in most of the central and southern states and extended dry spells during the vegetative growth stage in most of the cotton growing areas. India's cotton production is expected to increase 1.7% in CY2010 to 29.5 million bales (or 5.02 mt).

India's Cotton Balance Sheet

The following table presents India's cotton balance sheet for the last few years:

India's Cotton Balance Sheet

CY	Mkg						Growth	
	2005	2006	2007	2008	2009	2010	2009	2010
Supply	4,695	5,440	5,738	6,135	5,704	6,350	-7.0%	11.3%
Opening Stock	357	1,224	884	808	604	1,216	-25.3%	101.4%
Crop	4,131	4,148	4,760	5,219	4,930	5,015	-5.5%	1.7%
Import	207	68	94	108	170	119	56.7%	-30.0%
Demand	3,471	4,488	4,931	5,531	4,488	5,185	-18.9%	15.5%
Mill Consumption	2,788	3,094	3,313	3,326	3,230	3,519	-2.9%	8.9%
Non-Mill Consumption	282	340	361	375	340	391	-9.4%	15.0%
Small spinners Consumption	246	255	270	325	323	340	-0.7%	5.3%
Exports	155	799	986	1,505	595	935	-60.5%	57.1%
Closing Stock	1,224	952	808	604	1,216	1,165	101.4%	-4.2%

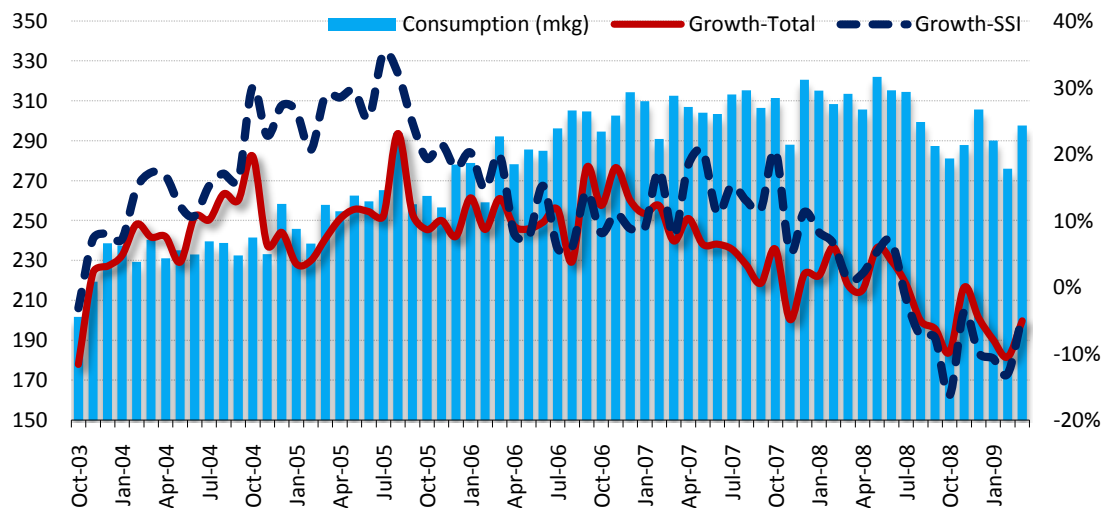
Source: Cotton Corporation of India (CCI), IMaCS Analysis

Forecast Nine Percent Increase in Domestic Cotton Consumption in CY2010

After a period (mid-2004 to late-2006) of strong consumption, India's cotton consumption growth slowed down significantly from early 2007 because of weak export demand for cotton yarn and textiles. Significantly, cotton consumption declined in each month since August 2008 with sharper declines reported for consumption by small scale industries (SSI). Weak domestic and export demand prospects for 2009 are expected to result in a 3.3% decline in domestic consumption in CY2009, compared with a 9.4% annual average growth during CY2005-07. The available monthly estimates for cotton consumption shows a gradual slowdown in the growth of cotton consumption caused by declining export sales and shrinking profit margins, and slowdown in domestic production of textiles and clothing (T&C).

Monthly Domestic Cotton Consumption (SSI and non-SSI)

mkg

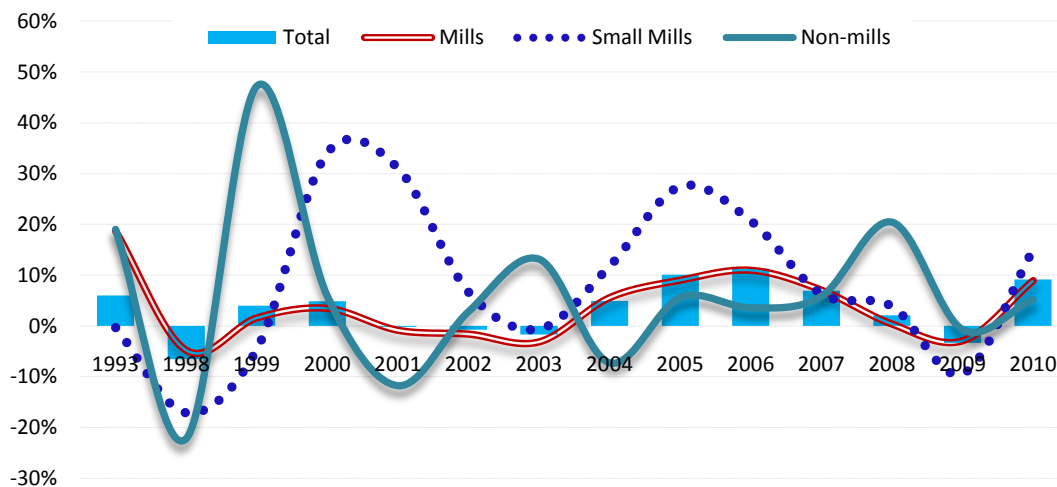


Source: Textiles Commissioner, IMACS Analysis

However, following a decline in CY2009, India's cotton consumption is expected to increase 9.2% in CY2010 to around 4.25 mt. The forecast high growth is expected to be driven by the recent recovery in textile production, which is primarily attributable to recovery in domestic demand. Exports are likely to decline in 2009, before recovering in 2010.

As can be seen from the balance sheet presented above, demand growth is likely to be driven by recovery in all segments, with significantly higher growth for small mill consumption. The higher growth is also attributable to the base effect of sharp decline in CY2009. Domestic cotton consumption is likely to increase at a 3-year CAGR of 2.5% to 4.25 mt in CY2010. By comparison, consumption increased at an annual rate of 9.4% during CY2005-07.

Yearly Growth in Domestic Cotton Consumption

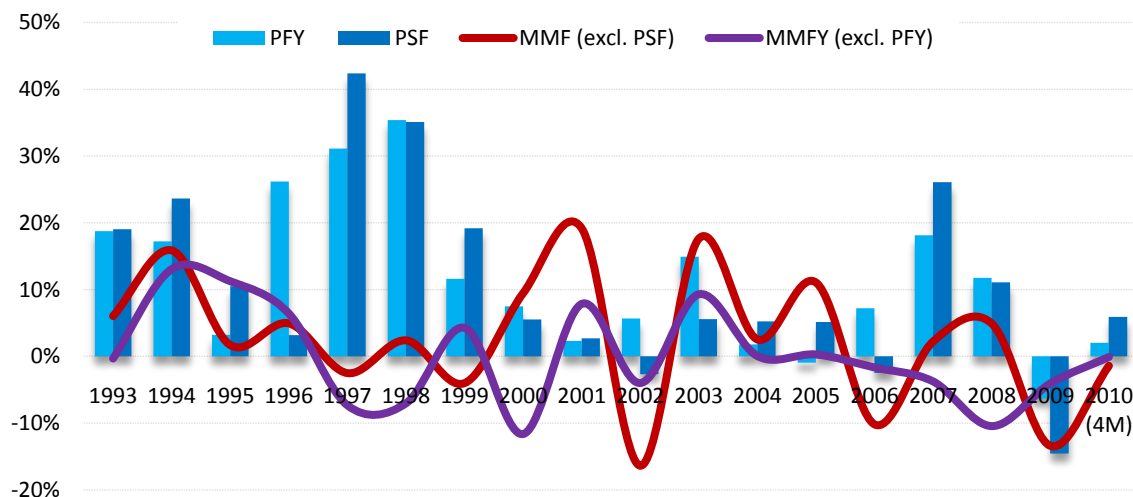


Source: CCI, IMaCS Analysis

Recent Recovery in Domestic Synthetic Fibre Production and Consumption

After a significant increase of 17% in FY2007, production of synthetic fibres increased 9.7% in FY2008, but declined 9.8% in FY2009, with a sharp decline from Q2FY2009 onwards.

Yearly Growth in MMF and MMFY Production



The recent decline in production has been because of higher product prices, higher production and availability of cotton, and deceleration in domestic and export demand growth. Amongst the various items, production of PSF has shown a significant decline inspite of some capacity addition coming in. VFY production has been impacted by decline in demand and rising crude prices.

After a 14.2% decline in FY2009, India's MMF production increased 12.1% (yoy) during H1FY2010 to 621 mkg. Production of MMFY, which had declined 6.2% in FY2009, also increased 12.7% (yoy) to 772 mkg.

Domestic Production and Consumption of MMFs and MMFYs

FY	Volume (million kg)			Growth		
	2009	2009 (4M)	2010 (4M)	2009	2010 (4M)	2007-09
Production						
MMFs	1,067	390	405	-14.2%	3.8%	3.3%
Viscose (VSF)	233	77	76	-16.8%	-1.0%	0.5%
Polyester (PSF)	752	279	296	-14.5%	5.9%	6.2%
Acrylic (ASF)	80	33	33	-2.1%	-2.0%	-9.7%
Polypropylene (PPSF)	3	1	1	0.0%	-14.3%	3.7%
MMFY	1,416	503	512	-6.2%	1.9%	6.3%
Viscose (VFY)	42	14	14	-16.9%	-3.8%	-7.2%
Polyester (PFY)	1,330	474	484	-6.3%	2.0%	7.3%
Nylon (NFY)	28	9	10	1.6%	7.9%	-8.7%
Polypropylene (PPFY)	15	5	5	43.5%	-4.0%	3.6%
Consumption						
MMFs	967	347	376	-11.1%	8.2%	0.4%
Viscose (VSF)	223	69	76	-11.0%	10.1%	-0.8%
Polyester (PSF)	651	244	264	-12.0%	8.4%	2.1%
Acrylic (ASF)	91	33	34	-4.3%	4.4%	-6.8%
Polypropylene (PPSF)	3	1	1	-6.8%	-22.0%	-3.5%
MMFY	1,427	479	510	4.7%	6.5%	6.5%
Viscose (VFY)	44	15	15	4.3%	-0.5%	-3.0%
Polyester (PFY)	1,336	449	480	4.3%	7.1%	7.6%
Nylon (NFY)	30	10	10	5.7%	5.6%	-10.7%
Polypropylene (PPFY)	17	6	5	40.9%	-19.3%	-2.2%

Source: Textiles Commissioner, IMaCS Analysis

Continuing Decline in World Fibre Production and Consumption in 2008-09

Significantly, the global financial crisis and the demand slowdown has adversely affected the demand for all textile fibres, including cotton and synthetic fibres. World textile fibre consumption is expected to have declined 6.7% in 2008 to 67.3 mt, compared with increases of 4.5% in 2007, and 4.4% in 2006. In absolute terms, demand declined by 4.8 mt in 2008, thereby halting six years of strong growth when demand increased by 18.6 mt. Cotton products accounted for 58% of the absolute decline in consumption of textile fibre products in 2008, while manmade fibres accounted for 41%. The driving force behind the increase in fibre consumption during 2007 was the global economic expansion. World demand for textile fibres declined significantly from mid-2008 because of the global economic crisis. Monthly retail sales in clothing slumped from September 2008 in the US, where the credit crunch began and then quickly spread globally. The global situation became even worse due to above-average capacity additions of textile machinery in the past and surging crude oil prices until July 2008

as well as soaring cotton prices until August 2008. All fibre types have been negatively affected by the economic slump. While cotton use witnessed its second year of consecutive decline, the long-term downswing for wool continued. Cellulosics, experiencing an all-time high in 2007 after six years of strong growth, declined 9.1% in 2008.

World Textile Fibres Consumption

	Consumption (thousand tonnes)					Growth		
	2002-04	2005	2006	2007	2008	2008	2004-08	1999-2008
Chemical Fibres	35,389	39,512	40,864	44,161	42,156	-4.5%	3.7%	4.1%
Natural Fibres	23,468	26,641	28,205	28,012	25,171	-10.1%	2.1%	2.3%
Cotton	22,133	25,328	26,875	26,713	23,907	-10.5%	2.3%	2.6%
Wool	1,239	1,216	1,232	1,201	1,164	-3.1%	-1.1%	-1.7%
Silk	96	97	98	98	100	2.0%	0.6%	2.6%
Total	58,857	66,153	69,069	72,173	67,327	-6.7%	3.1%	3.4%

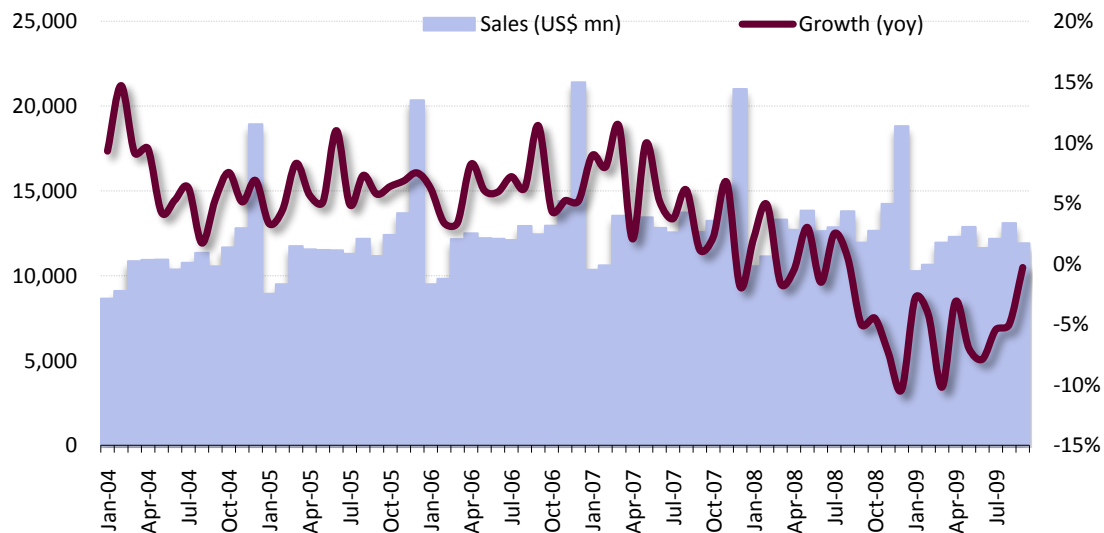
Demand for textile fibres is expected to decline in 2009, before posting a moderate recovery from late-2009. From an average growth of 6.6% during CY2005-07, cotton consumption growth is expected to decline 13% in CY2009, before increasing at a modest rate of 2-2.5% in CY2010. World MMF demand is likely to decline 8-10% in 2009, before increasing by around 3% in 2010. In the current global scenario, polyester consumption growth is being driven by Asia in general and China and India in particular. China's demand growth is expected to be high, but lower than the growth of the previous years, and would depend upon the performance of Chinese textile industry in post quota period especially when some of its textile articles are expected to continue to face restraints. Global operating rates are also expected to decline in 2008-09 primarily because of lower demand growth.

Clothing Retail Sales in Major Markets Have Posted Declines since September 2008

US retail sales of clothing and clothing accessories declined 2.2% during 2008 to US\$159 billion, compared with an increase of 4.8% in 2007. The decline has continued in 2009, with sales declining 5.2% (yoy) in 9M2009 to US\$107 billion. In absolute terms, compared with 9M2008 retail sales of clothing and clothing accessories declined by US\$5.9 billion in 9M2009. Overall, US domestic demand is expected to decline 4-5% in 2009, with declines in each quarter of 2009. Demand growth is expected to become marginally positive in 1Q2010, with 2-3% growth from 3Q2010 onwards. Increases in share prices have helped rebuild a fraction of the lost household wealth, and prices in the housing market appear to have stabilised. However, the pace of recovery will be curbed by possible increased unemployment, substantial negative wealth effects and the rebuilding of household assets.

US Clothing and Accessories Retail Sales

US\$ million, yoy growth



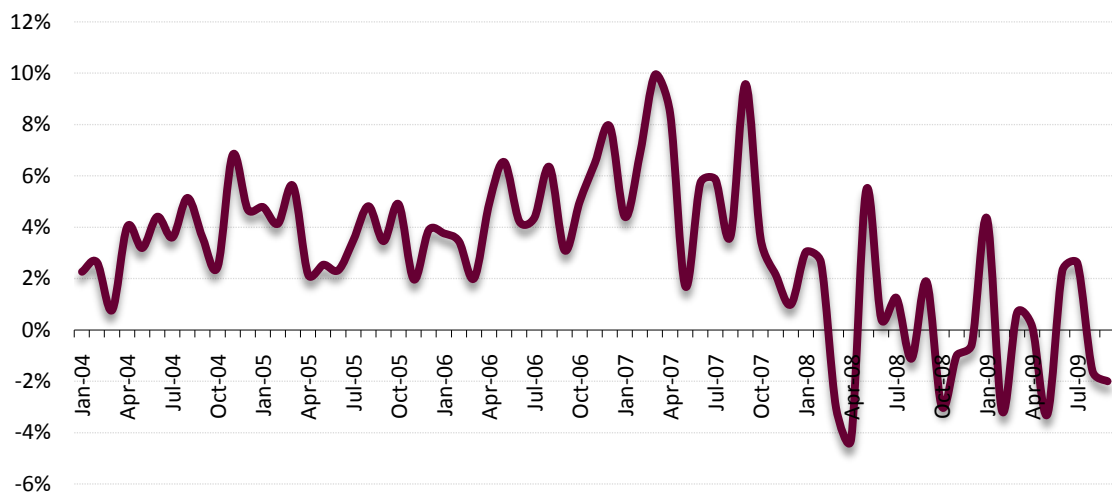
Source: US Census Bureau, IMaCS Analysis

US households' incomes have been depressed by the deterioration in labour market conditions, and their wealth has fallen markedly with declines in housing and equity prices. An increasing number of households are having difficulty servicing their debt; almost 12% of US mortgages were delinquent or in foreclosure at the end of 2008. However, recent increases in share prices have helped rebuild a fraction of the lost household wealth, and prices in the housing market appear to have stabilised. Nevertheless, heightened economic uncertainty is inducing households, even those that can afford it, to postpone purchases of non-essential items. The high unemployment rate is likely to depress wage growth, hold down increase in disposable income and consumer spending. Significantly, consumer spending may remain weak for several years, as households boost savings and rebuild their wealth. A gradual recovery may take hold in 2010, as financial conditions improve and macroeconomic policies exert a growing positive impulse.

After a moderate increase of 1.7% in 2007, the EU clothing market has declined 1% in 2008, and is expected to decline 2-3% in 2009, with larger decline in Germany and Spain. However, the UK market is expected to remain relatively healthy, at least in value terms. However, the month on month (mom) decline in volume of retail trade has halted, with EU-27 total retail trade increasing mom during June-July 2009, primarily for food, drinks, tobacco, clothing, etc. Retail sales were relatively strong at European clothing stores in July. While a sunny weather attracted consumers in the UK and Germany, sales however fell in France. EU clothing retail sales rebounded in October 2009, indicating some recovery. This trend could continue in November 2009 because of stocking for the Christmas period.

EU-27 Textile and Clothing Retail Sales

Percent change yoy



Source: Eurostat, IMAcS Analysis

Cotton Consumption to Increase in CY2010, Expected Decline in Production

World cotton production has followed global cotton mill use. After a 5% decline in cotton production during CY2006, world cotton production increased 4.2% in CY2007 to 26.7 mt mainly because of higher output in China and India, which offset lower production in US and Pakistan. However, world production declined 2.5% in CY2008 to 26 mt due to a decline in acreage. Production declined in China, US, Pakistan, and Turkey. India is the only major producing country where production has increased to a record of 5.35 mt in CY2008. As global cotton mill use exceeded global production in CY2008, stocks declined from 12.7 mt at end-CY2007 to 12.1 mt at end-CY2008.

World cotton production is forecast to decline 10.1% in CY2009 to 23.4 mt mainly because of a decline in area and yields, caused by lower demand in 2008-09. The projected decline in world production in CY2009 is driven by an expected sharp decline in US production. Global cotton consumption is projected to decline 12.1% in CY2009 due to sharply lower global demand. Cotton mill use is expected to decrease in almost all major countries. Cotton production is expected to exceed consumption, resulting in an increase in world cotton stocks to 12.34 mt by end-CY2009. World cotton production is forecast to further decline 5.1% in CY2010, caused by delays in harvest, lower returns, and more attractive prices for competing crops. After declines in CY2008-09, world cotton mill use is expected to increase 2.6% in CY2010, assuming a modest recovery in world economic growth in 2010. Cotton mill use is expected to partially recover in China, India and Pakistan, but to continue to decline in many smaller consuming countries in Asia, North America and Europe.

World Cotton Production and Consumption

CY	Mt			Growth		
	2008	2009	2010	2008	2009	2010
Production	26.24	23.42	22.37	-1.2%	-10.7%	-4.5%
China	8.06	7.99	6.86	4.2%	-0.8%	-14.2%
India	5.36	4.90	5.28	12.8%	-8.5%	7.8%
US	4.18	2.79	2.72	-11.0%	-33.3%	-2.5%
Pakistan	1.94	1.96	2.05	-10.1%	1.1%	4.4%
Brazil	1.60	1.20	1.18	5.1%	-25.3%	-1.8%
Uzbekistan	1.16	1.00	0.96	0.0%	-14.0%	-4.3%
Australia	0.14	0.33	0.39	-52.6%	134.4%	20.0%
Consumption	26.43	23.63	24.18	-0.5%	-10.6%	2.3%
China	10.67	9.31	9.53	2.1%	-12.8%	2.3%
India	4.05	3.90	4.03	2.8%	-3.8%	3.4%
Pakistan	2.62	2.51	2.62	0.0%	-4.2%	4.3%
Turkey	1.31	1.09	1.11	-17.8%	-16.7%	2.0%
Brazil	0.97	0.88	0.88	0.6%	-9.0%	0.0%
Bangladesh	0.76	0.82	0.87	9.3%	7.1%	6.6%
US	1.09	0.71	0.75	-3.6%	-35.1%	5.9%

Source: US Department of Agriculture (USDA)

World production is forecast to lag mill use in CY2010, resulting in cotton stocks declining to 10.7 mt by end-CY2010.

World Cotton Demand and Supply

CY	Volume (mt)						Growth		
	2000-05	2006	2007	2008	2009	2010	2008	2009	2010
Opening Stock	10.06	11.61	12.29	12.72	12.12	12.30	3.5%	-4.7%	1.5%
Production	21.21	25.64	26.75	26.03	23.40	22.20	-2.7%	-10.1%	-5.1%
Consumption	21.09	24.96	26.37	26.40	23.20	23.80	0.1%	-12.1%	2.6%
Exports	6.68	9.74	8.11	8.36	6.60	7.00	3.1%	-21.1%	6.1%
Closing Stock	10.21	12.29	12.72	12.12	12.30	10.70	-4.7%	1.5%	-13.0%

Source: ICAC, IMAcS Analysis

Strong Q2FY2010 Recovery in Domestic Textile and Clothing Production

India's textile and clothing production growth has moderated significantly during FY2008 and FY2009. While the slowdown in FY2008 was primarily because of higher domestic prices, and the rupee appreciation which resulted in a sharp slowdown in exports; the decline in FY2009-10 is due to dampening of domestic demand due to continued higher prices; and a sharp slowdown in export demand. The index of industrial production (IIP) for cotton textiles declined 1.9% in FY2009 compared with increases of 4.3% in FY2008, and 14.8% during FY2007. The IIP for wool, silk, and man-made fibre (MMF) textiles remained flat in FY2009, compared with increases of 4.8% in FY2008, and 7.8% in

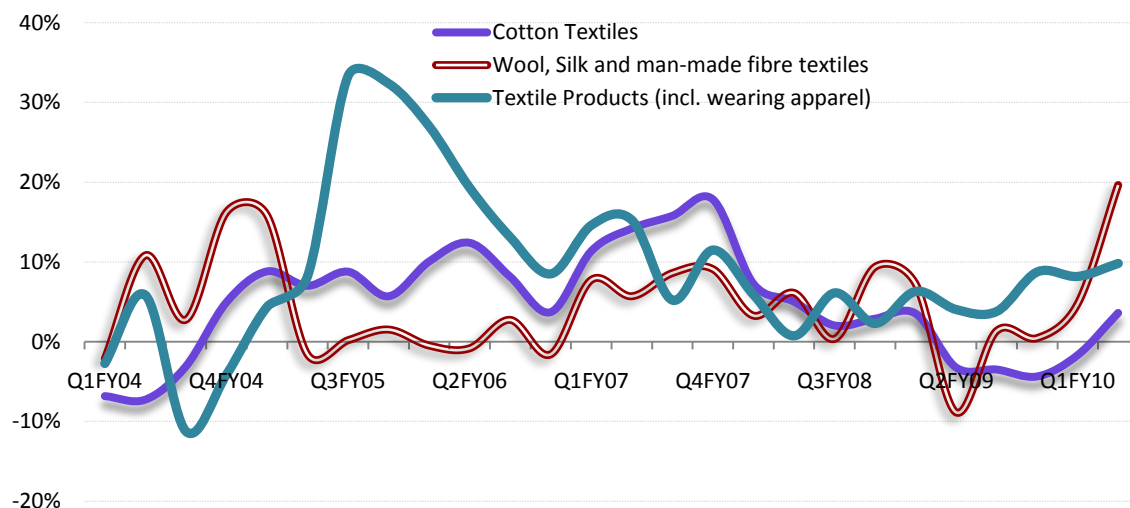
Textiles

FY2007. The IIP for textile products (including wearing apparel) increased 5.7% during FY2009, as compared with an increase of 3.7% during FY2008. However, slowdown in domestic demand and exports has resulted in the IIP stagnating or declining since late-2008.

Although yoy production growth rates of textile and clothing products has declined sharply, a moderate recovery was witnessed in Q1FY2010 in all the above three items, with the recovery accelerating in Q2FY2010.

Quarterly Growth in IIP for Textile Products

yoy



Recovery in Fabric Production in FY2010

India's fabric production had increased at a 5-year CAGR of 5.9% to 56,025 million square metres (msm) in FY2008. However, production growth has declined sharply from 9.3% in FY2006 to 4.9% in FY2008. During FY2009, fabric production declined 1.9% (yoy) to 54,967 msm, primarily because of lower output by the handloom and decentralised power loom sector.

After a 1.9% decline in FY2009, India's fabric production increased at a high rate of 10.4% (yoy) in 7MFY2010 to 33,588 msm. The growth was primarily driven by a 11% (yoy) increase in output of decentralised hosiery sector to 7,779 msm, alongwith 12% (yoy) growth in output of powerloom sector to 19,529 msm.

Sector- and Fabric-wise Production

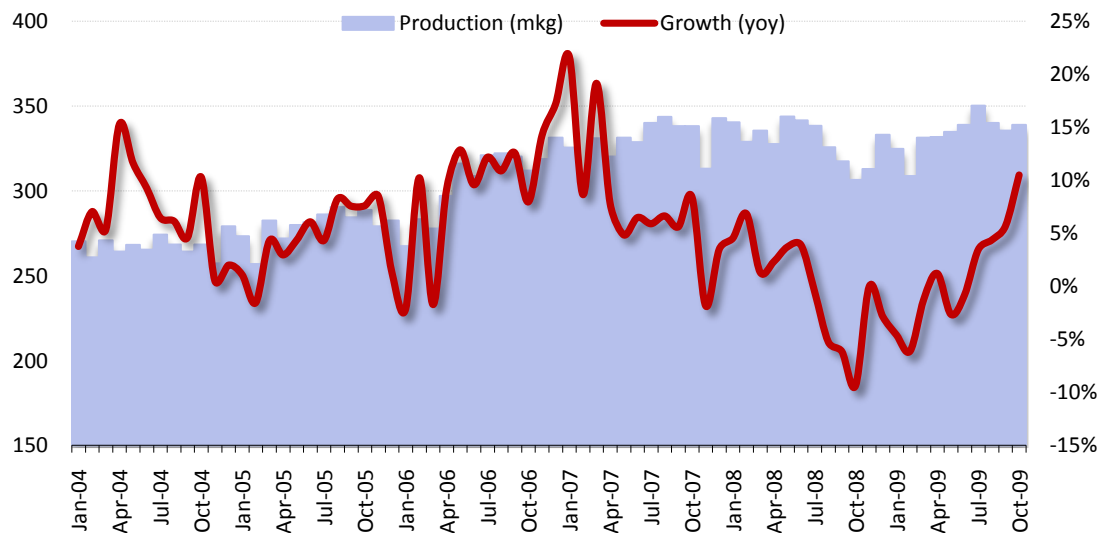
5MFY	Production (msm)		Growth		
	2009	2010	2008	2009	5M FY2010
Cotton	11,252	11,989	3.7%	-1.1%	6.5%
Mills	515	527	-4.3%	0.9%	2.3%
Handloom	2,448	2,455	6.3%	-3.9%	0.3%
Decentralised Powerloom	3,980	4,262	2.9%	-3.0%	7.1%
Decentralised Hosiery	4,309	4,745	4.0%	2.3%	10.1%
Blended	2,958	3,166	0.1%	-1.8%	7.0%
Mills	198	179	27.9%	0.9%	-9.6%
Handloom	30	45	24.2%	-4.1%	50.0%
Decentralised Powerloom	2,175	2,288	-2.1%	-3.1%	5.2%
Decentralised Hosiery	555	654	-0.2%	2.3%	17.8%
100% NC	8,940	9,877	8.3%	-3.0%	10.5%
Mills	28	33	-0.9%	0.9%	17.9%
Handloom	308	338	3.9%	-3.9%	9.7%
Decentralised Powerloom	8,430	9,289	9.2%	-3.1%	10.2%
Decentralised Hosiery	174	217	-15.0%	2.3%	24.7%
Total	23,150	25,032	4.9%	-1.9%	8.1%
Mills	741	739	2.0%	0.9%	-0.3%
Handloom	2,786	2,838	6.3%	-3.9%	1.9%
Decentralised Powerloom	14,585	15,839	5.6%	-3.1%	8.6%
Decentralised Hosiery	5,038	5,616	2.6%	2.3%	11.5%
Khadi, Wool and Silk	320	320	6.1%	0.0%	0.0%
Total	23,470	25,352	4.9%	-1.9%	8.0%

Source: Textiles Commissioner, IMA CS Analysis

Modest Three Percent Growth in Spun Yarn Production

India's spinning industry is considered one of the most modern and internationally competitive segment of India's textile industry. During FY2009, spun yarn production declined 2.2% primarily because of a decline in cotton and synthetic spun yarn production, attributable to lower demand growth. Yoy production growth was negative since July 2008, with the decline accelerating in each successive month. Although spun yarn production declined 0.8% (yoy) in Q1FY2010 to 1.006 mt, the rate of decline was lower than ~4% (yoy) over the previous three quarters. The lower rate of decline has been primarily because of a 7% (yoy) increase in non-cotton production in Q1FY2010.

Monthly Spun Yarn Production and Growth

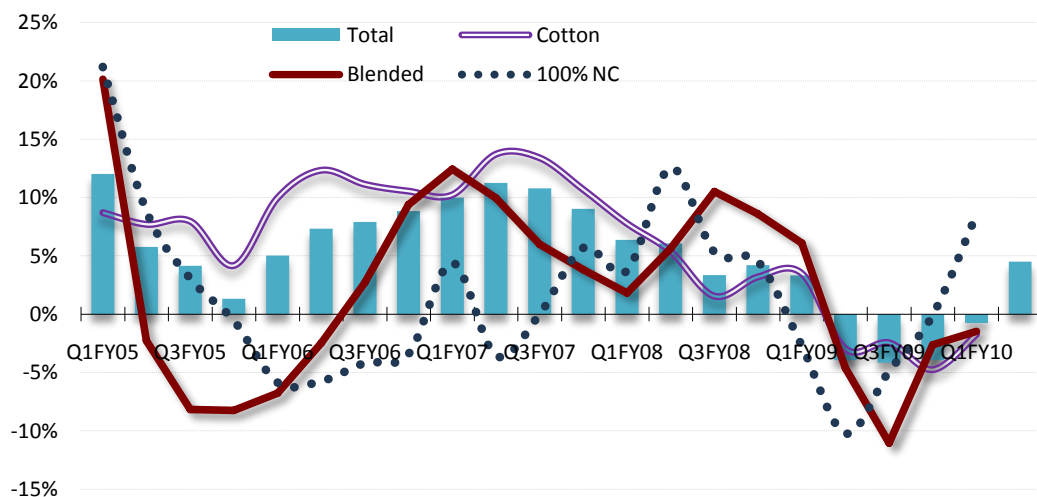


Source: Textiles Commissioner, IMaCS Analysis

Following four quarters of decline, India's spun yarn production is estimated to have increased 4.5% (yoy) in Q2FY2010 to 1.03 mt, with varying degree of recovery in all segments.

Growth in Spun Yarn Production

yoy



Source: Textiles Commissioner, IMaCS Analysis

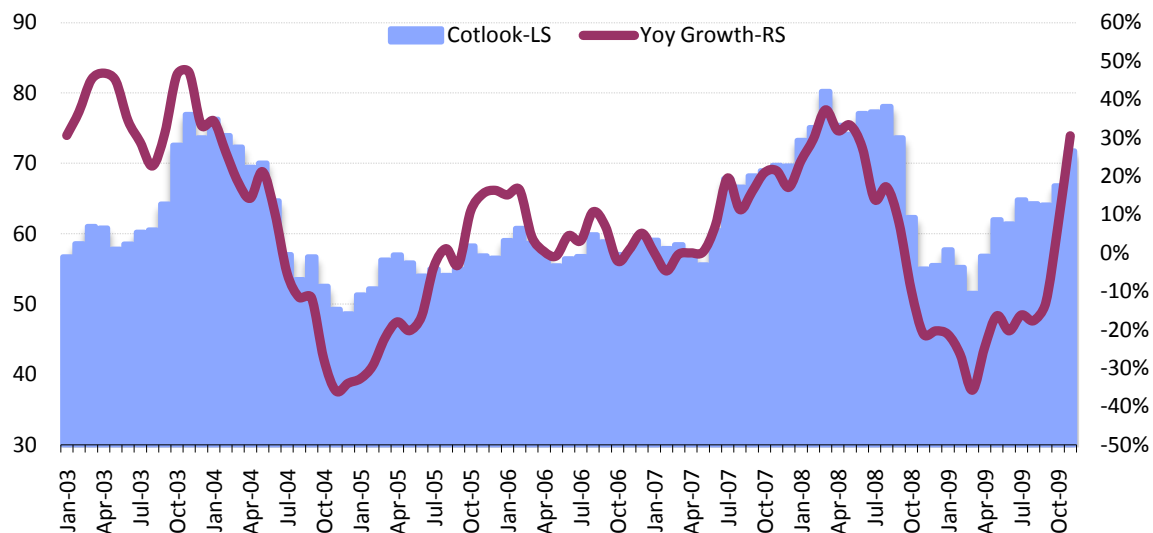
Recent Increase in World Fibre Prices

Cotton

World cotton prices had increased sharply during CY2003-08. During CY2008, the Cotlook A index increased sharply to US\$1.77/kg in March 2008 before declining sharply from August 2008, primarily because of increases in prices of competing crops and the increasing role of commodity investment funds. Having declined by roughly 2 cents (per kg) during September 2008, the Cotlook A index declined 59 cents during September 2008-March 2009. Lower expected global economic growth in 2009, projected declines in developed economies' income in 2009, tightening credit availability for spinning mills, and uncertainty regarding the consequences of the global financial crisis, have severely affecting the prospects for cotton demand in CY2009. During September 2008-March 2009, world cotton prices declined 59 cents/kg or 34%. However, prices increased 36 cents/kg during April-November 2009, or by 29%. Cotton prices increased during April-May 2009 in line with a general rally in equity and commodity markets and a continuous fall of the dollar. However, this rally could not be sustained in June 2009 as demand continued to remain subdued on the physical market, and the US\$ rebounded. However, as cotton prices fell 3-4% in June 2009, in line with a general decline on commodity markets, demand from spinners was boosted on the physical market. As a result, prices increased in July-November 2009, with significant increases in the latter part. Prices have increased because of early signs of demand recovery, forecast decline in CY2010 production, and stronger demand from China. The International Cotton Advisory Committee (ICAC) has forecast Cotlook A Index to decline from US\$0.7290/lb (US\$1.607/kg) in CY2008 to US\$0.612/lb (US\$1.35/kg) in CY2009, but to increase to US\$0.69/lb (US\$1.52/kg) in CY2010.

International Prices of Cotton and Growth

US cents per pound, (Cotlook A index, middling 1-3/32 inch, average of cheapest 5 of 15 styles traded in Northern Europe, c.i.f)



Source: World Bank, IMaCS Analysis

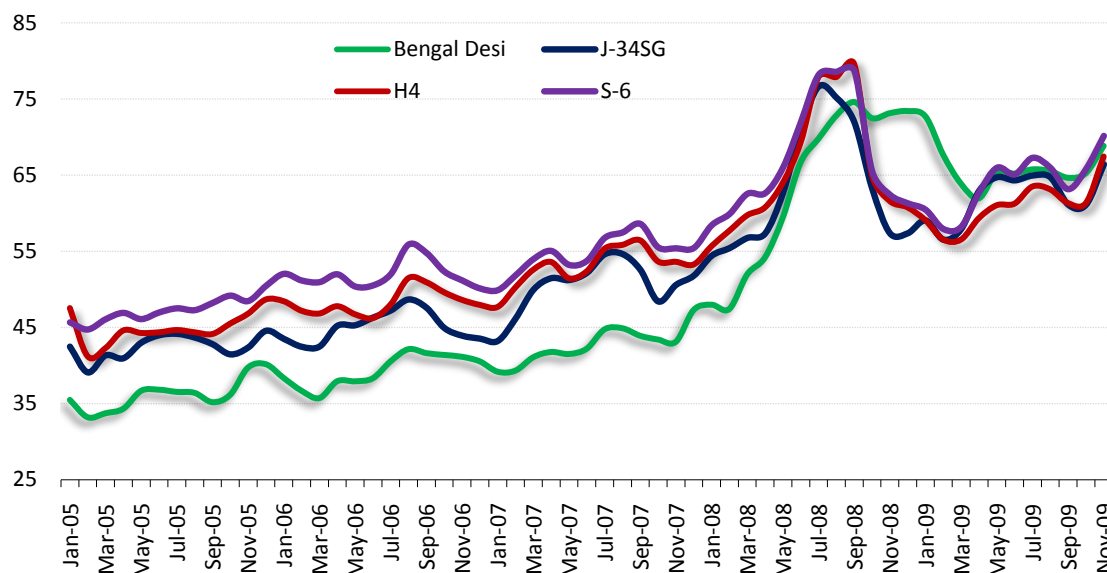
Domestic raw cotton prices had increased significantly during 2007 and 2008. Despite heavy market arrivals, domestic prices had been relatively firm on strong export demand. During CY2009 however,

Textiles

inspite of the GoI raising the minimum support price (MSP) of different varieties of seed cotton by 39-45%², cotton prices have declined sharply because of weaker international prices, and less favourable demand prospects. However, cotton prices have increased by around 10-18% during April-November 2009. Cotton prices have continued to increase in recent months caused by harvest delays due to poor weather in the US, China and India. Further in its December 2009 monthly report, the ICAC further raised consumption while again reducing output.

Domestic Raw Cotton Prices

Rs./kg



Source: CCI, IMAcS Analysis

In response to the sharp decline in cotton prices and worsening price outlook, both India and China have taken measures to support domestic prices. India is implementing a program under which the Government-owned Cotton Corporation of India (CCI) will buy and hold cotton. This could support domestic farm prices and sustain acreage in CY2010. However, CCI has decided to lower its price offers by about 400 rupees per candy. As of November 20, 2009, the CCI had procured 1.247 million bales of 170 kg each (or 0.21 mt). Of the procurement during CY2009 up to November 20, 2009, around 1.247 million bales (or 99.96% of total) were procured at minimum support prices (MSPs). The CCI has accumulated very large stocks for supporting cotton prices in India, with unsold stocks with CCI increasing to 1.145 million bales (0.2 mt as of November 20, 2009). The increase in stocks is primarily because of higher procurement, and lower demand in both domestic and overseas markets. India's cotton exports had increased 53% during CY2008 to 1.51 mt in CY2008. However, exports are forecast to decline 61% in CY2009 to 0.60 mt. Thus, the export of raw cotton in the current cotton season 2008-09 is far less and is primarily affected by demand recession. Two big banks in China namely Bank of China and China Construction Bank Corporation are reported to be facing financial

² The MSP of medium staple cotton of length group 24.5 mm to 25.5 mm has been raised by 39% to Rs. 2,500 per quintal in CY2009, compared with Rs. 1,750 to 1,800 per quintal in CY2008. The MSP for long staple variety of length group 29.5 mm to 30.5 mm has been raised to Rs. 3,000 per quintal in CY2009, compared with Rs. 2,250 per quintal in the CY2008.

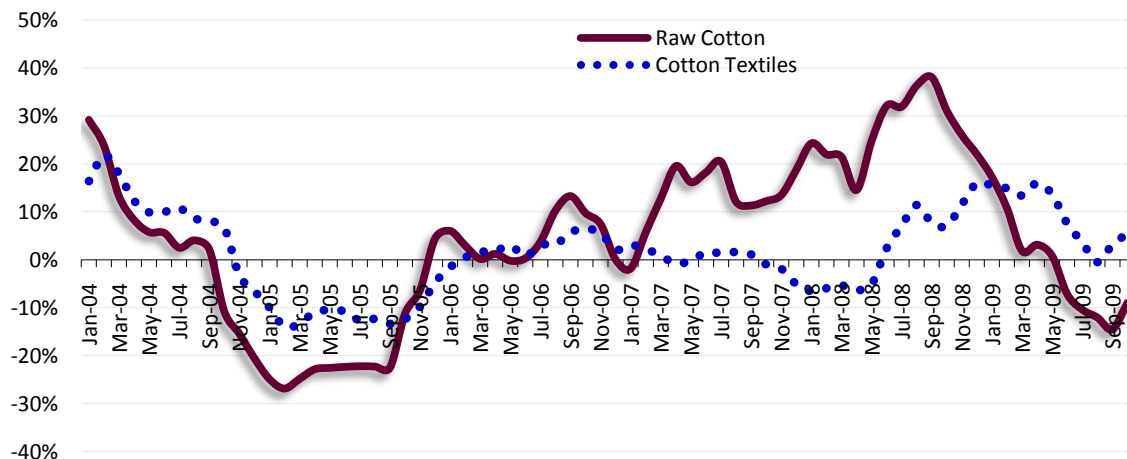
problems, which has affected share and commodities markets of China. This has an impact on the payment realisation in respect of 0.15 million bales already shipped from India to China and also 0.2 million bales committed for export from India to China destination and yet to be shipped. This quantity may be offloaded in the Indian local market or it may be shipped to another destination.

However, the recent sharp jump in cotton prices has discouraged the market support operations of CCI in Punjab and Haryana because the crop's spot prices in these states exceeds the MSP. With the unexpected rise in cotton prices in a short span of time spinning mills of the northern region have slowed down and are instead building up their stocks on fears of lack of recovery of input prices.

In India, the wholesale price index (WPI) for raw cotton increased 24% in FY2009, compared with an increase of 17.4% in FY2008. By comparison, the WPI for cotton textiles increased at a lower rate of 7.8% in FY2009, compared with a decline of 1.8% in FY2008. During 2008-09, although cotton prices have declined significantly since late-2008, the decline in WPI for cotton textiles was higher, thereby adversely impacting industry profitability. However, this situation has been reversed in recent months with WPI for cotton textiles declining at a lower rate than the WPI for raw cotton. In fact, the WPI for cotton textiles increased 5.5% (yoy) in October 2009, compared with a (yoy) decline of 8.9% for raw cotton.

Monthly Change in WPI for Raw Cotton and Cotton Textiles

yoy



Source: Gol, IMaCS Analysis

Synthetic Fibre Prices Increased in Recent Months

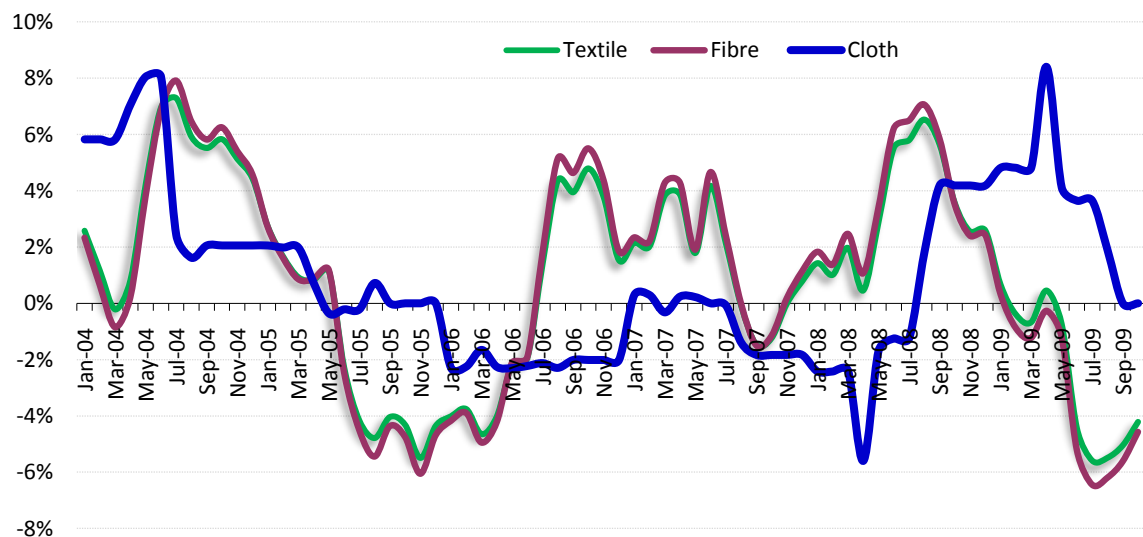
In India, the WPI for MMFs increased 3% during FY2009, as compared with an increase of 1.1% in FY2008. The WPI for manmade cloth increased 1.9% during FY2009, compared with a decline of 1.3% during FY2008. During FY2009, polyester fibre and yarn increased sharply during the first half of FY2009 due to a significant increase in raw material costs caused by record crude oil prices. Demand from filament weavers and spinners were however depressed by the rise in prices. The unprecedented rise in prices almost wiped out demand, even during the peak season. As a result,

prices fell subsequently as demand was depressed. Prices then declined sharply because of a sharp decline in crude oil prices.

During FY2010, prices had moved up marginally in Q1FY2010 because of higher raw material costs and stronger demand from spinners and filament weavers. Production in Surat, the main manufacturing hub for polyester textured yarns in India, declined because of power shortages. Polyester prices increased further in July-August 2009, in line with a surge in glycol prices on the domestic and international markets. Demand was relatively strong in the filament weaving industry, allowing the upward adjustment in prices. However, polyester prices have started declining in September 2009, in line with international market trends. A lower demand has forced polyester texturisers in reducing their prices. Following a surge in prices in July and August 2009, polyester prices in India witnessed a decline of Rs. 5-7 a kg in September 2009. Lower raw material prices and lack of domestic demand are the reasons for the fall in yarn prices. As prices fall sharply and domestic demand subsides, the industry is increasingly looking at the export markets. The lower prices have made Indian textured yarns competitive and manufacturers are reportedly booking good orders.

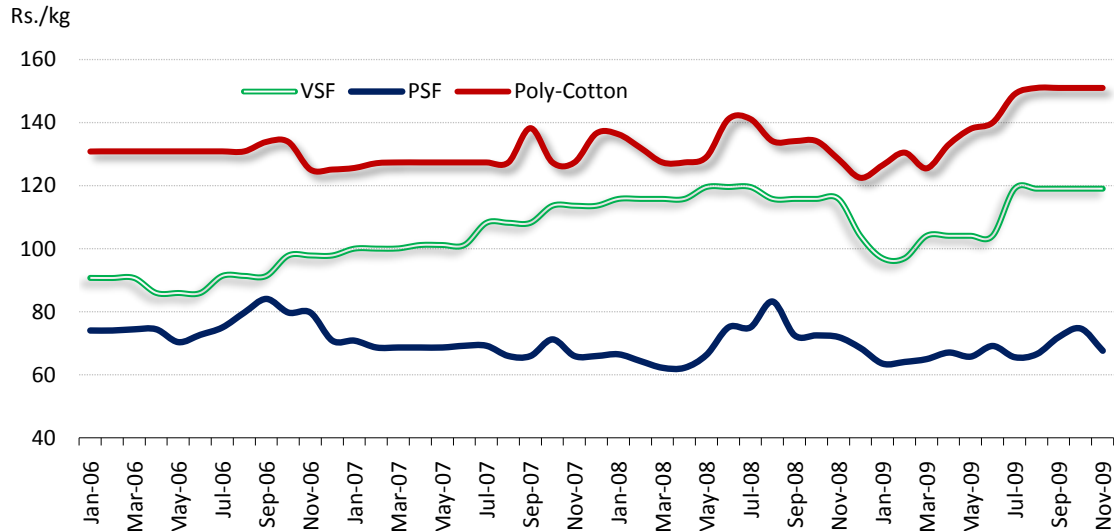
Monthly Change in WPI for Manmade Textiles, Fibre, and Cloth

yoy



Source: GoI, IMaCS Analysis

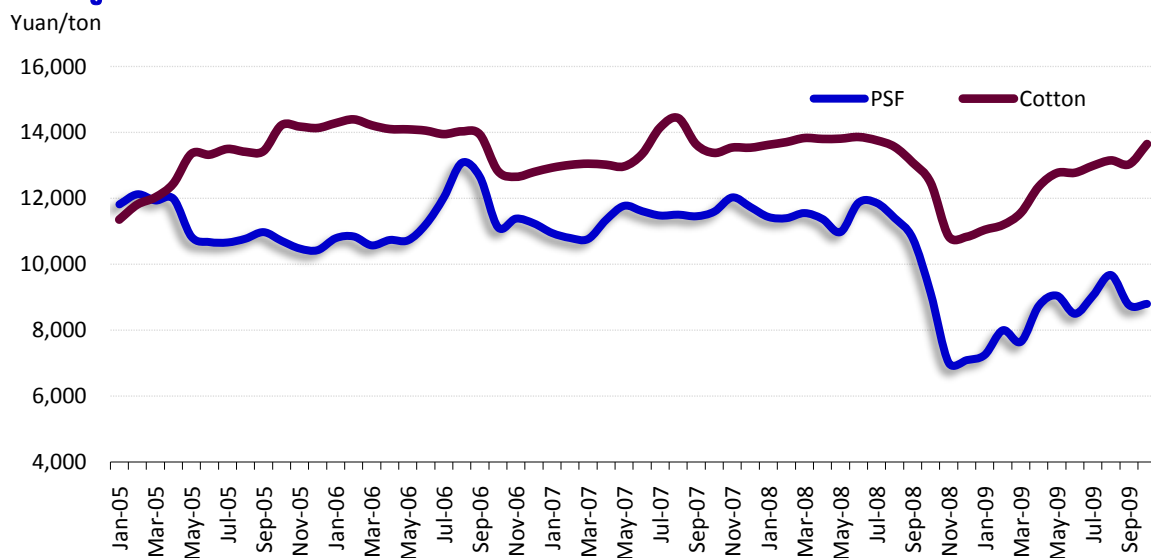
Domestic Prices of Synthetic Fibres



Source: Textiles Commissioner, IMAcS Analysis

Polyester prices declined sharply in the second half of FY2009 driven by lower MEG and PTA prices in Asia and weakening demand. However, polyester prices have found some stable level in China. Prices have increased from mid-2009 reflecting a new rise in raw material costs, primarily ethylene and MEG. However, demand may remain stagnant on the market thereby impacting the sustainability of recent price increases. In fact, polyester fibre prices have been declining in recent weeks, in line with a drastic decline in raw material costs and lower demand from the textile industry.

Average Price of PSF and Cotton in China



Source: IMAcS Analysis

MILLS CLOSURE

As of August 2009, a total of 415 mills were closed with an installed capacity of 7.60 million spindles, 0.1 million rotors, 0.04 million looms and 0.26 million workers on rolls. The number of mills under closure has increased from 381 at end-March 2008 to 413 at end-July 2009, and 415 at end-August 2009. Of these, while closed spinning mills have increased from 318 at end-March 2008 to 346 at end-August 2009, closed composite mills have increased from 63 to 69. Financial difficulties have accounted for around 57% of closures.

Month-wise Status of Closed Mills

Month	Number of Mills			Capacity (thousands)			Employees (thousands)
	Spinning	Composite	Total	Spindles	Rotors	Looms	
Apr-08	318	63	381	72.8	80.7	32.8	254.0
May-08	317	63	380	72.6	80.7	32.8	253.0
Jun-08	308	61	369	70.0	79.8	32.3	249.0
Jul-08	310	61	371	70.0	82.5	32.3	249.0
Aug-08	310	61	371	70.0	82.5	32.3	249.0
Sep-08	319	61	380	71.1	83.1	32.3	250.0
Oct-08	319	61	380	71.1	83.1	32.3	250.0
Nov-08	324	61	385	71.6	83.1	32.3	251.0
Dec-08	328	63	391	72.5	89.1	33.1	254.0
Jan-09	329	63	392	72.7	89.1	33.1	254.0
Feb-09	335	63	398	73.5	89.6	33.1	254.0
Mar-09	339	64	403	73.8	95.2	33.1	254.0
Apr-09	343	65	408	74.69	97.03	33.10	257.0
May-09	343	65	408	74.69	97.03	33.10	257.0
Jun-09	346	67	413	75.42	99.85	33.30	259.0
Jul-09	346	67	413	75.42	99.85	33.30	259.0
Aug-09	346	69	415	76.03	99.85	34.00	260.0

Source: Textiles Commissioner, IMaCS Analysis

Nearly 45% of the mills closed as of August 2009 were in the five Southern states of AP, TN, Kerala, Karnataka, and Puducherry. Many of these mills have now been closed for more than 5 years.

State-wise Status of Closed Mills

As of August 2009

Month	Number of Mills Total	Spindles	Capacity (thousands)		Employees (thousands)
			Rotors	Looms	
AP	32	490.3	2.3	0.5	0.0
Kerala	12	223.8	0.2	0.7	0.0
TN	115	1,547.3	10.9	1.6	0.0
Karnataka	27	468.7	5.8	0.7	0.0
Pondicherry	1	0.0	0.8	0.0	0.0
Southern States	187	2,730.0	20.0	3.5	0.0
Rest of India	228	4,872.6	79.8	30.5	0.0
Total	415	7,602.6	99.8	34.0	0.0

Source: Textiles Commissioner, IMaCS Analysis

Textiles

INVESTMENTS AND PROJECTS

Data available upto November 2009 indicated that investments in textiles projects in the five southern states of AP, Karnataka, Kerala, TN, and Puducherry add up to at least Rs. 54.86 billion, for projects with expected investments. Investment values of all projects are unavailable. These investments include existing, planned, projects under execution, and those deferred. In terms of investments by various states, TN & Pondicherry has estimated investments of Rs. 30.28 billion, followed by AP (Rs. 23.28 billion), Kerala (Rs. 1.06 billion), and Karnataka (Rs. 0.24 billion). Thus, two states—AP and TN—account for around 98% of total investments. Ownership wise, it is the private sector firms that own a large portion of over 98% of the total investments. The balance is accounted for by Central and State Governments.

Textile Project Investments in Southern India

Rs. million

	Deferred	Planning	Stalled	Under Execution	Total
AP	8,921	4,380	2,400	7,580	23,281
Kerala				1,060	1,060
TN & Pondicherry	1,833	7,870	2,148	18,429	30,280
Karnataka				240	240
Total	10,754	12,250	4,548	27,309	54,861

Source: IMaCS Analysis

As can be seen from the above table, about 20% of the investments have been deferred because of the changed market situation. An estimated investment of 22% or Rs. 12.25 billion are in the planning stage. Under execution projects have announced investment values of Rs. 27.31 billion, or 50% of total. Stalled projects account for the balance 8% or Rs. 4.55 billion.

As can be seen from the table below, many projects with substantial investments have been deferred for the time being. However, many major expansion projects are still being implemented.

Major Textile Projects in Southern States by Announced Investment Values

State	Project	Promoter	Cost (Rs. Million)	Implementation Stage
TN	Textile Zone (Tirupur)	Hydra Consulting Services	4,000	Planning
AP	Home Textiles (Vijayawada) Project	Prime Textiles Ltd.	3,000	Deferred
AP	Cotton Yarn (Cuddapah) Project	Shri Govindaraja Textiles Pvt. Ltd.	2,750	Deferred
AP	Cotton Weaving (Anantapur) Project	Hindupur Vyapar Apparel Park Ltd.	2,200	Under Execution
TN	Cotton Yarn (Udumelpet) Project	Patspin India Ltd.	1,760	Under Execution
TN	Cotton Yarn (Coimbatore) Project	Shiva Taxyarn Ltd.	1,750	Under Execution
TN	Cotton Yarn (Thappukundu) Project	Shri Renuga Textiles Ltd.	1,500	Under Execution
TN	Woven Fabrics (Perundurai) Project	Minar International Ltd.	1,360	Planning
AP	Cotton Yarn (Thimmapuram) Project	Tirumala Cotton & Agro Products Pvt. Ltd.	1,280	Stalled
AP	Integrated Textiles (Guntur) Project - Expansion	Idupulapadu Cotton Mills Ltd.	1,240	Under Execution
AP	Cotton Yarn (Kuppam) Project	RBA Textiles Pvt. Ltd.	1,100	Planning

Textiles

AP	Cotton Yarn (Kotipi) Project	Sri Anjaneya Cotton Mills Pvt. Ltd.	1,000	Planning
TN	Cotton Yarn & Garments (Tirupur) Project	Tubeknit Fashions Pvt. Ltd.	1,000	Stalled
TN	Knitted Cotton Textiles (Shaw Nagar) Project	Best & Crompton Textiles & Apparels (Arakkonam) Ltd.	1,000	Under Execution
TN	Polyester Filament Yarn (Madurai) Project - Expansion	Sumeet Industries Ltd.	900	Planning
AP	Garments (Hindupur) Project	Indus Fila Pvt. Ltd.	850	Deferred
AP	Cotton Yarn (Peddapuram) Project	Sudha Agro Oil & Chemical Industries Ltd.	800	Deferred
TN	Textile Processing (Vadipatti) Project	Madurai Integrated Textile Park Ltd.	800	Planning
TN	Knitted Fabrics (Perundurai) Project	S P Apparels Ltd.	770	Under Execution
TN	Cotton Yarn (Annur) Project - Expansion	Durairaj Mills Ltd.	747	Under Execution
AP	Compact Yarn (Velurudonka) Project - Expansion [Phase II]	Vasanth Spinners Pvt. Ltd.	720	Stalled
TN	Fabric Weaving (Arakulam) Project - Expansion	Vijayeswari Textiles Ltd.	700	Under Execution
Kerala	Open End Yarn (Balarampuram) Project	Kerala State Textile Corp. Ltd.	660	Under Execution
AP	Cotton Yarn (Unnava) Project - Expansion	Spin Cot Textile Pvt. Ltd.	650	Deferred
TN	Cotton Yarn (Srivilliputtur) Project	Sakthi Spin Tex (P) Ltd.	600	Under Execution
TN	Cotton Yarn (Annur) Project	Winndor Cotton Mill (P) Ltd.	600	Under Execution
TN	Cotton Yarn (Aruppukottai) Project	Shri Govindaraja Textiles Pvt. Ltd.	600	Under Execution
AP	Cotton Yarn (Nujivedu) Project	Vantage Spinners Pvt. Ltd.	580	Under Execution
TN	Cotton Yarn (Erode) Project	Manchester Textile Pvt. Ltd.	550	Under Execution
TN	Cotton Yarn (Vidyapati) Project - Expansion	Kandagiri Spinning Mills Ltd.	550	Under Execution
AP	Cotton Yarn (Guntur) Project - Expansion	Guntur Spinning Mills Pvt. Ltd.	530	Deferred
AP	Cotton Yarn (Nalgonda) Project	Sriramagiri Spinning Mills Ltd.	500	Under Execution
AP	Cotton Yarn (Ganaparam) Project	Idupulapadu Cotton Mills Ltd.	500	Under Execution
TN	Cotton Yarn (Elumathur) Project - Expansion	GMB Textiles Mills India Ltd.	500	Stalled
TN	Cotton Spinning Mill (Thanjavur) Project - Expansion	Thanjavur Spinning Mills	500	Under Execution
TN	Cotton Yarn (Virudhunagar) Project	Sudarsanam Spinning Mills	500	Under Execution
TN	Cotton Yarn (Rajapalayam) Project	Sree Iswarya Textiles Pvt. Ltd.	480	Under Execution
AP	Polyester Yarn (West Godavari) Project	Helapuri Spinning Mills Pvt. Ltd.	470	Under Execution
AP	Spinning Mill (Tanuku) Project	Akula Boards Pvt. Ltd.	450	Planning
TN	Woven Fabrics (Irungattukottai) Project	House of Pearl Fashions Ltd.	438	Deferred
AP	Cotton Yarn (Prakasam) Project	Sri Omkareswara Textiles Pvt. Ltd.	430	Planning
AP	Cotton Yarn (Tanuku) Project	Ramaswamy Spinning Mills	400	Planning
AP	Knitted Garments (Hyderabad) Project - Expansion	Sri Jayalakshmi Spinning Mills Ltd.	400	Stalled
AP	Cotton Yarn (Pedakakani) Project	Cosmos Cotton India Pvt. Ltd.	400	Under Execution
AP	Cotton Yarn (Boraj) Project - Expansion	GMR Spintex Pvt. Ltd.	400	Under Execution
TN	Weaving (Salem) Project	Sambandam Spinning Mills Ltd.	400	Deferred
TN	Textile Processing (Perundurai) Project	K P R Mill Ltd.	397	Under Execution

TN	Cotton Yarn (Kakapalayam) Project - Expansion	Dharanidara Spinning Mills Pvt. Ltd.	360	Under Execution
AP	Cotton Yarn (Guntur) Project	Yerram Venkata Ramana Industries Pvt. Ltd.	310	Planning
TN	Readymade Garments (Chettipalayam) Project	Vijayeswari Textiles Ltd.	306	Under Execution
AP	Cotton Yarn (Martur) Project	Sai Manasa Spintex India Ltd.	300	Under Execution
Kerala	Spinning Mill (Etumanoor) Project - Modernisation	Kerala State Textile Corpn. Ltd.	300	Under Execution
TN	Viscose Staple Fibre Yarn (Uppupalayam) Project	Arunachala Gounder Textile Mills Pvt. Ltd.	300	Deferred
TN	Weaving (Namakkal) Project	KKP Spinning Mills Ltd.	300	Planning

Source: IMaCS Analysis

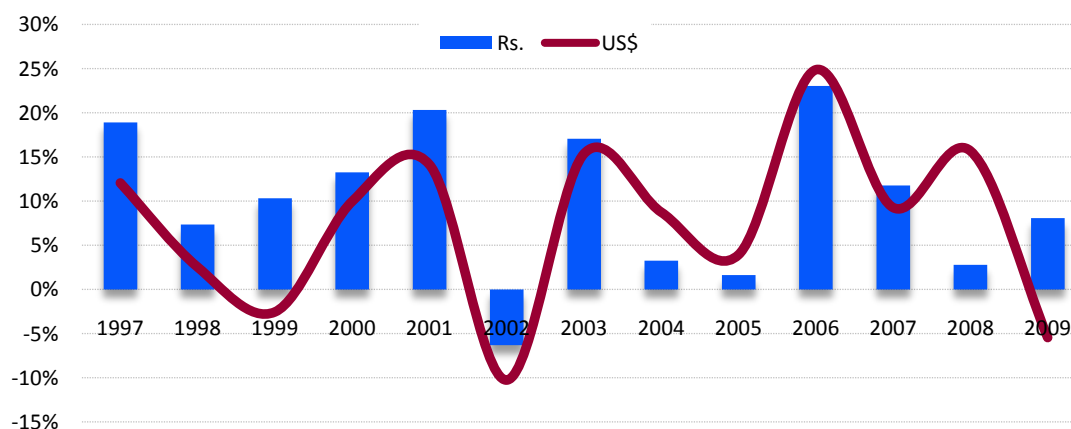
TRADE DEVELOPMENTS

India's Trade Data Indicate a Sharp Export Slowdown in FY2009

As per data released by the GoI, during FY2009, India's T&C exports increased 8.1% in Rupee terms to Rs. 963 billion. Exports in US\$ terms however declined 5.4% during FY2009 to US\$20.94 billion, representing the first decline since FY2002.

Growth in India's T&C Exports

FY



Source: GoI, IMaCS Analysis

During FY2006-08, India's T&C exports had increased at a 3-year CAGR of 16.4% in US\$ terms, and 12.2% in rupee terms. However, after registering strong growth during FY2006, export growth has slowed down since FY2007 mainly because of the rupee appreciation (during 2007), higher competition from China, global economic slowdown, and uncertain consumer spending prospects in major markets. During H1FY2009, exports increased 9.6% (yoy) in US\$ terms, and 14.5% in rupee terms. However, during H2FY2009, exports declined 17% (yoy) in US\$ terms and increased 3% (yoy) in rupee terms.

India's Exports of T&C

FY	Rs. Million			US\$ million		
	2008	2009	Growth	2008	2009	Growth
Readymade Garments	390,010	502,907	28.9%	9,692	10,934	12.8%
Cotton, yarn, fabrics, made-ups etc	187,344	189,423	1.1%	4,656	4,119	-11.5%
Manmade textiles & made-ups etc	127,850	150,881	18.0%	3,177	3,281	3.3%
Natural Silk textiles	15,409	16,640	8.0%	383	362	-5.5%
Wool & woollen manufactures	3,736	4,565	22.2%	93	99	6.9%
Coir & coir manufactures	6,449	6,809	5.6%	160	148	-7.6%
Jute manufactures	13,194	13,758	4.3%	328	299	-8.8%
Handicrafts	20,462	13,755	-32.8%	508	299	-41.2%
Carpets	37,979	35,641	-6.2%	944	775	-17.9%
Cotton Raw (incl. waste)	88,654	28,659	-67.7%	2,203	623	-71.7%
Total	891,087	963,038	8.1%	22,144	20,939	-5.4%

Source: Textiles Commissioner, IMAcS Analysis

Although export growth in rupee terms has improved from 2.5% in FY2008 to 8.1% in FY2009 because of the sharp rupee depreciation, exports declined 5.4% in US\$ terms in FY2009, compared with a growth of 15.7% in FY2008 (when the rupee appreciated). Even in rupee terms, there has been a sharp decline in exports to China, accompanied by lower growth in exports to UK. However, exports to US increased at a higher rate (in rupee terms) during FY2009.

Overall in rupee terms, product-wise export trends indicate a significant growth in export of readymade garments (RMG), accompanied by a decline in cotton, and cotton yarns/fabrics/made-up, attributable to a sharp decline in raw cotton exports to China. Export of synthetic fibres have also increased at a healthy rate, though growth has been moderated in US\$ terms. Handicraft exports have declined in both rupee and US\$ terms.

Although exports of RMGs have increased in US\$ terms, they have increased at a higher rate in rupee terms, attributable to rupee depreciation. However, as shall be discussed below, realisations have been under pressure from early-2009.

US IMPORTS

Since 2001, First Annual Decline in Imports in 2008

The slowdown in US imports of T&C that developed from mid-2007 has developed into a decline during 2008 and 2009. During 2008, US imports of T&C declined 3.3% to US\$93.19 billion, representing the first annual decline since 2001. While US textile imports declined 3.9% to US\$21.62 billion, apparel imports declined 3.2% to US\$71.57 billion. After a growth of 1.5% in 2007, India's exports to the US declined 0.5% in 2008 to US\$5.08 billion. The depreciation of the rupee during FY2009 had made Indian exports more competitive and resulted in India gaining market share upto June 2008. Subsequently, US imports of T&C have declined.

Over the last few years, there has been a shift in US imports from Central American and South American countries toward lower-priced Asian suppliers—primarily China, but also India, Indonesia, Bangladesh, Vietnam, and Cambodia. US imports of T&C from China increased 19.4% in 2007 to

US\$32.32 billion, which represented a slowdown from 21% in 2006, and 54% in 2005. However, increases in China's exports to the US occurred most significantly in the few months immediately following ATC/MFA abolition, and in part reflected expectations by Chinese shippers of subsequent pressure from the US and the EU for new export restraints, which were later introduced in the form of bilaterally negotiated restraint agreements. Some of the growth in US imports from China was moderated through 2008 because a US-China Memorandum of Understanding that imposes safeguards on certain textile and apparel import categories from China exported on or after January 1, 2006, through December 31, 2008. Exports from high cost Asian suppliers to the US have grown at more modest rates or declined. By comparison, US imports from Mexico have declined, reflecting increased competition from the Caribbean countries benefiting from new US trade preferences for the region, and from lower cost Asian countries. Furthermore, despite their proximity to the US market, Mexican exporters are uncompetitive with China, where labour costs are around one-fourth of Mexico's. China and other Asian countries continue to offer low labour and other production costs, the ability to make almost any type of textile product or garment at any quality level and in large volumes, and strong customer service.

US imports of T&C from India rose 27.1% in 2005, but growth fell sharply to 9% in 2006, and 1.5% in 2007, before registering a decline of 0.5% in 2008. During 2005 and 2006, India's exports to US increased however, at a significantly smaller rate than shown by China. However, export growth declined sharply in 2007 attributable to a slowdown in demand, and rupee appreciation. India's export growth to the US since 2005 has been driven primarily by cotton products. By comparison, exports of MMF products increased 16.4% in 2005, but have declined subsequently because of a decline in export of MMF apparels. By comparison, MMF yarn and fabric exports have increased at a healthy rate. Since 2007, India's textile exports in general, and MMF product exports in particular were affected by the rupee appreciation in 2007, and a slowdown that emerged from around late-2007.

US Imports of T&C

	Value (US\$ million)		Change			Share (%)		
	2007	2008	2006	2007	2008	2004	2007	2008
TEXTILES	22,487	21,619	5.6%	3.9%	-3.9%	100%	100%	100%
China	9,578	9,756	17.7%	12.0%	1.9%	30.4%	42.6%	45.1%
India	1,934	2,005	12.4%	4.9%	3.7%	7.6%	8.6%	9.3%
Pakistan	1,672	1,589	11.7%	-9.1%	-5.0%	7.6%	7.4%	7.3%
Canada	1,241	953	-9.6%	-12.6%	-23.2%	8.5%	5.5%	4.4%
Mexico	1,102	943	-7.6%	2.1%	-14.5%	6.0%	4.9%	4.4%
Italy	796	705	-3.9%	5.0%	-11.4%	4.5%	3.5%	3.3%
Korea, South	698	614	-0.2%	-7.4%	-12.0%	4.2%	3.1%	2.8%
Turkey	587	529	-11.9%	0.3%	-10.0%	3.2%	2.6%	2.4%
Taiwan	504	466	-2.4%	2.4%	-7.5%	3.0%	2.2%	2.2%
Japan	391	373	2.5%	10.0%	-4.6%	1.9%	1.7%	1.7%
CLOTHING	73,923	71,568	4.2%	3.2%	-3.2%	100%	100%	100%
China	22,745	22,923	22.3%	22.8%	0.8%	13.8%	30.8%	32.0%
Vietnam	4,359	5,223	18.3%	35.3%	19.8%	4.0%	5.9%	7.3%
Indonesia	3,981	4,028	27.6%	8.5%	1.2%	3.7%	5.4%	5.6%
Mexico	4,523	4,015	-12.9%	-14.6%	-11.2%	10.3%	6.1%	5.6%
Bangladesh	3,103	3,442	22.9%	6.5%	10.9%	3.1%	4.2%	4.8%
India	3,170	3,073	7.1%	-0.5%	-3.0%	3.4%	4.3%	4.3%
Honduras	2,511	2,604	-6.9%	2.9%	3.7%	4.1%	3.4%	3.6%
Cambodia	2,425	2,376	24.7%	13.5%	-2.0%	2.2%	3.3%	3.3%
Thailand	1,766	1,668	1.8%	-4.0%	-5.6%	2.8%	2.4%	2.3%
El Salvador	1,486	1,534	-13.1%	5.6%	3.2%	2.7%	2.0%	2.1%
TOTAL	96,410	93,187	4.6%	3.4%	-3.3%	100%	100%	100%
China	32,323	32,678	20.8%	19.4%	1.1%	17.5%	33.5%	35.1%
Vietnam	4,558	5,425	17.9%	34.2%	19.0%	3.3%	4.7%	5.8%
India	5,104	5,078	9.0%	1.5%	-0.5%	4.4%	5.3%	5.4%
Mexico	5,625	4,957	-12.0%	-11.8%	-11.9%	9.4%	5.8%	5.3%
Indonesia	4,206	4,241	26.6%	7.8%	0.8%	3.1%	4.4%	4.6%
Bangladesh	3,191	3,537	22.0%	6.4%	10.8%	2.5%	3.3%	3.8%
Pakistan	3,170	3,078	11.9%	-2.5%	-2.9%	3.1%	3.3%	3.3%
Honduras	2,518	2,612	-7.0%	3.0%	3.7%	3.2%	2.6%	2.8%
Cambodia	2,435	2,386	24.6%	13.2%	-2.0%	1.7%	2.5%	2.6%
Thailand	2,059	1,979	0.0%	-3.1%	-3.9%	2.6%	2.1%	2.1%

Source: OTEXA, IMaCS Analysis

Sharp Decline of 14% in US T&C Imports during January-June 2009

After a decline of 3.3% in 2008, US imports of T&C declined 14.3% (yoy) in 9M2009 (January-September 2009). While US textile imports declined 19.7% (yoy) to US\$13.26 billion, apparel imports declined 12.7% (yoy) to US\$47.40 billion. The decline was sharp for India's exports, which declined 9.6% (yoy) in 9M2009. Among the major countries, only low cost countries such as Viet Nam and Bangladesh reported a modest growth or low decline. Imports from China declined at a lower rate primarily because of removal of safeguards.

US Imports of Textiles and Apparel in 2009

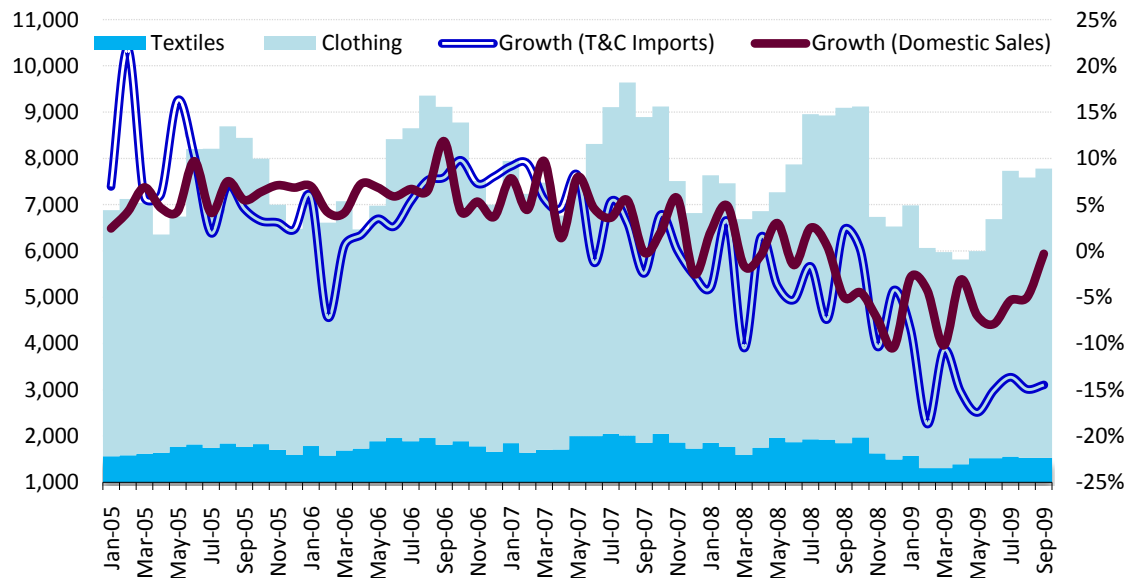
	Value (US\$ million)		Growth		Share	
	2008 (9M)	2009 (9M)	2008	2009 (9M)	2008	2009 (9M)
TEXTILES	16,518	13,263	-3.9%	-19.7%	100%	100%
China	7,468	6,130	1.9%	-17.9%	45.1%	46.2%
India	1,506	1,285	3.7%	-14.7%	9.3%	9.7%
Pakistan	1,175	1,086	-5.0%	-7.6%	7.3%	8.2%
Canada	751	622	-23.2%	-17.2%	4.4%	4.7%
Mexico	734	555	-14.5%	-24.4%	4.4%	4.2%
Korea, South	479	388	-12.0%	-18.8%	2.8%	2.9%
Italy	541	308	-11.4%	-43.1%	3.3%	2.3%
Turkey	394	275	-10.0%	-30.1%	2.4%	2.1%
Taiwan	364	250	-7.5%	-31.3%	2.2%	1.9%
Japan	284	198	-4.6%	-30.1%	1.7%	1.5%
CLOTHING	54,276	47,397	-3.2%	-12.7%	100%	100%
China	16,905	17,235	0.8%	2.0%	32.0%	36.4%
Vietnam	3,927	3,781	19.8%	-3.7%	7.3%	8.0%
Indonesia	3,103	2,969	1.2%	-4.3%	5.6%	6.3%
Bangladesh	2,599	2,660	10.9%	2.3%	4.8%	5.6%
Mexico	3,070	2,530	-11.2%	-17.6%	5.6%	5.3%
India	2,422	2,265	-3.0%	-6.5%	4.3%	4.8%
Honduras	1,928	1,496	3.7%	-22.4%	3.6%	3.2%
Cambodia	1,828	1,409	-2.0%	-22.9%	3.3%	3.0%
Pakistan	1,104	976	-0.6%	-11.6%	2.1%	2.1%
El Salvador	1,161	957	3.2%	-17.6%	2.1%	2.0%
TOTAL	70,794	60,660	-3.3%	-14.3%	100%	100%
China	24,373	23,365	1.1%	-4.1%	35.1%	38.5%
Vietnam	4,077	3,981	19.0%	-2.4%	5.8%	6.6%
India	3,928	3,550	-0.5%	-9.6%	5.4%	5.9%
Mexico	3,804	3,085	-11.9%	-18.9%	5.3%	5.1%
Indonesia	3,273	3,088	0.8%	-5.7%	4.6%	5.1%
Bangladesh	2,674	2,750	10.8%	2.8%	3.8%	4.5%
Pakistan	2,279	2,061	-2.9%	-9.6%	3.3%	3.4%
Honduras	1,933	1,502	3.7%	-22.3%	2.8%	2.5%
Cambodia	1,837	1,422	-2.0%	-22.6%	2.6%	2.3%
Thailand	1,523	1,116	-3.9%	-26.7%	2.1%	1.8%

Source: OTEXA, IMaCS Analysis

Monthly import trends indicate a slowdown in US imports of T&C from mid-2007 primarily because of a slowdown in the US economy, and consequent slowdown in personal consumption expenditure. Import growth has been negative for the last five quarters, with imports declining by a sharp 12.7% (yoy) in 1Q2009, followed by declines of 16% (yoy) in 2Q2009, and 14.4% (yoy) in 3Q2009. The decline has been primarily because of a consistent decline in US retail sales of clothing and clothing accessories from September 2008.

US Monthly Imports of T&C and Domestic Retail Sales of Clothing

US\$ million, yoy growth



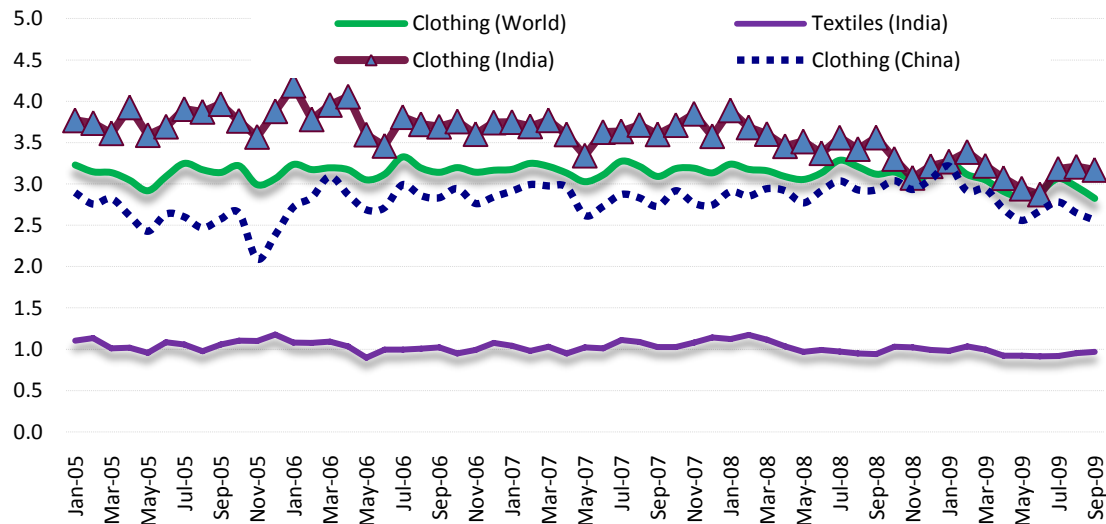
Source: OTEXA, US Census Bureau, IMaCS Analysis

Decline in US Unit Import Prices Caused by Lower Demand

Although unit prices of US textile imports remained stable in 2008, they have started showing sharp declines in recent months, with apparel import prices declining as a result of the recent sharp decline in retail sales. Latest official data are giving signs of deflation, especially for woven apparel or T-shirts. Prices have continued to decline inspite of a recent increase in raw material costs. In the near-term, prices could continue to decline attributable to slackening demand, the continuous rise in the US dollar, recent sharp decline in raw material costs, and the removal of US quotas on imports from China.

US Monthly Import Values of T&C from China and India

US\$/metre



Source: OTEXA, IMaCS Analysis

US apparel import prices slightly declined on average from US\$3.20/metre or m in 3Q2008 to a low of US\$2.89/m in 2Q2009, before increasing marginally to US\$2.95/m in 3Q2009. A slight rise in cotton apparel import prices was more than offset by a 2-3% decline in MMF apparel prices. The increase in apparel prices is primarily due to higher prices of products from India and other lower cost countries. India's apparel price realisations had declined from US\$3.52/m in 3Q2008 to US\$2.97/m in 2Q2009, but increased to US\$3.19/m in 3Q2009. By comparison, apparel prices have declined from china. Compared with global average import prices, Chinese prices are generally lower in a large number of cotton categories. In MMF categories however, the Chinese competitiveness is further improving with prices at lower levels, if compared with other origins.

US Import Unit Prices of T&C from India

US\$/m

	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09
Apparel	3.65	3.71	3.72	3.45	3.52	3.20	3.29	2.97	3.19
Non Apparel	1.08	1.08	1.14	1.00	0.96	1.02	1.00	0.92	0.95
Yarns	0.37	0.38	0.37	0.35	0.36	0.39	0.36	0.30	0.36
Fabrics	0.44	0.45	0.46	0.41	0.42	0.43	0.34	0.34	0.34
Made ups/Misc	1.36	1.38	1.47	1.41	1.25	1.30	1.31	1.23	1.24
Cotton Products	2.02	1.97	2.28	2.05	1.79	1.90	2.19	1.92	1.82
Cotton Apparel	3.58	3.60	3.63	3.43	3.40	3.22	3.31	2.95	3.14
Cotton Non-Apparel	1.13	1.14	1.25	1.07	1.03	1.16	1.24	1.08	1.09
Wool Products	15.09	14.52	19.96	18.97	13.35	14.36	16.77	17.20	11.94
Wool Apparel	9.10	8.53	12.30	11.29	9.41	8.61	11.66	9.87	8.29
Wool Non-Apparel	20.38	19.48	22.47	21.43	16.94	19.89	18.36	20.37	17.13
MMF Products	0.81	0.75	0.75	0.66	0.75	0.66	0.66	0.65	0.73
MMF Apparel	3.30	3.54	3.49	2.86	3.34	2.41	2.65	2.60	2.74
MMF Non-Apparel	0.40	0.38	0.38	0.36	0.39	0.38	0.29	0.30	0.33
Silk and Apparel Products	1.51	2.33	4.14	3.39	1.94	1.97	3.55	3.33	1.63
Total	1.85	1.80	2.04	1.82	1.64	1.66	1.85	1.67	1.64

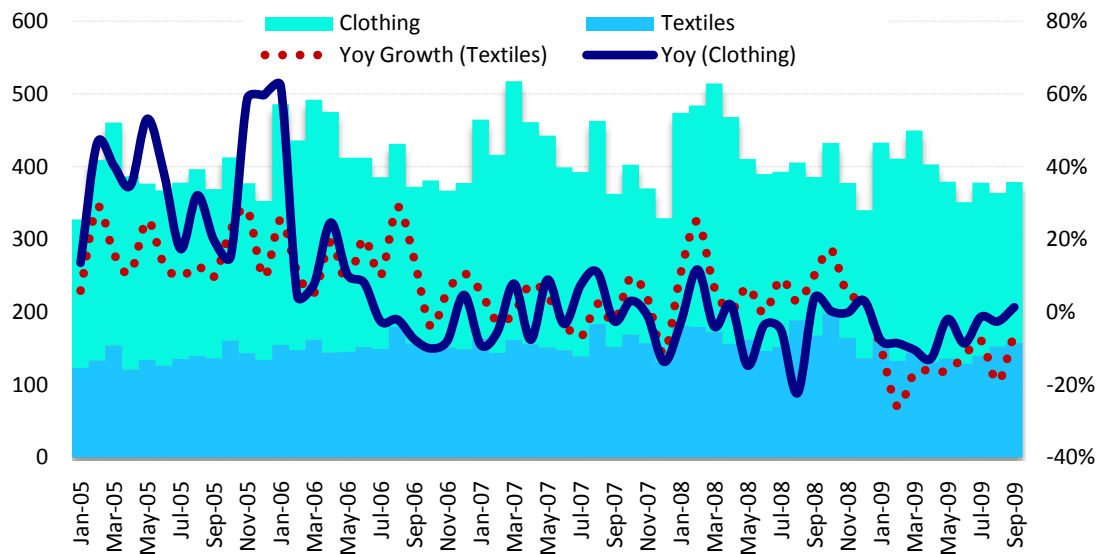
Source: OTEXA, IMAcS Analysis

Sharp Decline in US Imports from India

India's exports of T&C to the US had shown signs of recovery during late-2007, especially for textiles, which increased 8.8% (yoy) in 4Q2007, and 11.6% (yoy) in 1Q2008. Apparel exports declined 9% (yoy) in 1Q2009 and 8.2% (yoy) in 2Q2009, compared with a marginal growth of 1% (yoy) in 4Q2008, and decline of 9% (yoy) in 3Q2008. The decline has been partly driven by increased competition from Chinese suppliers. However, apparel exports increased 1.3% (yoy) in September 2009, representing the first monthly increase during 2009. Textile export growth has also declined sharply from 11.6% (yoy) in 1Q2008 to -17.6% (yoy) in 1Q2009, and -11.4% (yoy) in 3Q2009. There has also been a sharp decline in unit value of clothing exported, from US\$3.56/m in September 2008 to US\$2.87/m in June 2009. However, unit prices have increased since then to US\$3.17/m in September 2009.

US Monthly Imports of T&C from India

US\$ million, yoy growth



Source: OTEXA, ImaCS Analysis

India's exports to the US during 2008-09 have been driven primarily by textiles of cotton and MMFs. By comparison, cotton apparel, which constitute around 55-60% of total exports, declined 2% in 2008, and by 7.4% (yoy) in 9M2009. MMF apparels also declined 11% in 2008, but increased 9.4% (yoy) in 9M2009, mainly because of higher exports of dresses and coats.

US Imports of T&C from India during 9M2009

	Value (US\$ million)		Growth				
	9M	9M	2008	9M	1Q	2Q	3Q
	2008	2009		2009	2009	2009	2009
Apparel	2,422	2,265	-3.0%	-6.5%	-9.0%	-8.2%	-0.9%
Non Apparel	1,506	1,285	3.7%	-14.7%	-17.6%	-14.9%	-11.4%
Yarns	50	31	-7.5%	-38.1%	-37.4%	-52.2%	-22.6%
Fabrics	165	120	22.9%	-27.2%	-20.4%	-28.2%	-31.7%
Made ups/Misc	1,291	1,134	2.1%	-12.2%	-16.6%	-11.2%	-8.2%
Cotton Products	3,129	2,881	1.0%	-7.9%	-10.9%	-9.0%	-2.9%
Cotton Apparel	2,084	1,931	-2.0%	-7.4%	-9.9%	-9.2%	-1.3%
Cotton Non-Apparel	1,045	950	7.2%	-9.1%	-13.2%	-8.3%	-5.5%
Wool Products	319	234	-10.3%	-26.9%	-30.6%	-32.7%	-17.8%
Wool Apparel	68	61	-6.7%	-10.5%	-24.9%	-19.5%	-0.2%
Wool Non-Apparel	252	173	-11.3%	-31.3%	-31.6%	-34.9%	-26.6%
MMF Products	412	391	-1.9%	-5.3%	-1.9%	-3.5%	-9.9%
MMF Apparel	222	243	-11.0%	9.4%	13.8%	11.5%	3.7%
MMF Non-Apparel	190	147	10.9%	-22.5%	-20.8%	-20.0%	-26.2%
S and V Products	67	46	-8.1%	-31.7%	-35.3%	-28.4%	-27.5%
Total	3,928	3,550	-0.5%	-9.6%	-12.1%	-10.6%	-5.4%
Major Items							
Cotton knit shirts (M/B)	392	330	-9.7%	-15.9%	-18.2%	-18.9%	-10.4%
Other cotton manfrs.	320	298	0.5%	-6.9%	-4.6%	-3.3%	-11.6%
Cotton Pile Towels	278	269	3.7%	-3.2%	-7.9%	-6.2%	5.4%
Knit Shirts & Blouses (W/G)	260	254	3.8%	-2.2%	3.3%	-2.4%	-8.7%
Non-Knit Shirts & Blouses (W/G)	251	240	-10.7%	-4.6%	-18.6%	-9.2%	35.7%
Cotton Sheets	231	218	17.6%	-5.4%	-18.6%	0.5%	5.0%
Cotton Slacks (W/G)	233	193	10.1%	-17.2%	-21.8%	-22.1%	-0.6%
Cotton Underwear	156	165	42.5%	6.1%	22.1%	8.8%	-7.7%
Wool Floor Coverings	242	165	-11.7%	-31.7%	-32.8%	-34.8%	-26.3%
Cotton Dresses	134	158	-0.8%	17.9%	-3.6%	24.4%	109.5%
Cotton Non-Knit Shirts (M/B)	161	132	-3.8%	-17.9%	-15.4%	-22.1%	-16.7%
Cotton Trousers (M/B)	188	128	-6.4%	-32.0%	-26.2%	-42.5%	-25.8%

Source: OTEXA, IMaCS Analysis

EU IMPORTS

Sharp Decline in EU Imports during 2008 and 2009

EU imports of T&C have declined during 2008 and 2009, with imports in 2Q2009 declining for the sixth successive quarter. Although yoy import growth has been negative for textiles since December 2007, clothing imports declined at a lower rate. The decline was sharper for intra-EU suppliers, who continued to lose market share to extra-EU suppliers, especially in lower-cost countries such as China, Bangladesh, Cambodia, and to a lesser extent India.

Textiles

EU Imports of T&C

	Euro Million			Growth		Share		
	2005	2008	2009 (7M)	2008	2009 (7M)	2005-07	2004	7M 2009
TEXTILES	55,697	54,862	26,344	-8.6%	-22.1%	1.8%	100.0%	100.0%
EU Extra	17,328	19,038	9,556	-4.9%	-16.5%	5.7%	29.8%	36.3%
China	4,055	5,681	3,007	4.4%	-11.0%	19.0%	5.7%	11.4%
Turkey	3,245	3,337	1,632	-10.3%	-19.5%	6.3%	5.4%	6.2%
India	2,009	2,138	1,041	-7.7%	-17.5%	5.7%	3.4%	4.0%
Pakistan	1,237	1,466	767	-4.6%	-9.4%	3.0%	2.5%	2.9%
Switzerland	910	874	416	-8.8%	-24.3%	-1.1%	1.7%	1.6%
US	883	873	430	-6.3%	-17.9%	2.6%	1.5%	1.6%
EU Intra	38,368	35,823	16,788	-10.5%	-24.9%	0.1%	70.2%	63.7%
Germany	7,937	7,737	3,583	-8.2%	-26.2%	1.4%	14.2%	13.6%
Italy	7,490	6,276	2,922	-14.2%	-26.2%	-2.7%	14.0%	11.1%
Belgium	4,115	3,890	1,841	-10.4%	-23.9%	0.1%	7.6%	7.0%
France	3,415	2,803	1,280	-14.0%	-28.6%	-4.0%	6.5%	4.9%
Netherlands	2,800	2,691	1,309	-8.6%	-20.1%	1.6%	4.9%	5.0%
UK	2,073	1,828	832	-13.3%	-27.8%	-1.5%	3.9%	3.2%
Spain	1,861	1,592	732	-14.3%	-27.3%	-2.2%	3.5%	2.8%
CLOTHING	99,697	114,445	63,434	0.8%	-2.2%	6.4%	100.0%	100.0%
EU Extra	52,778	63,484	36,298	2.8%	1.4%	8.6%	51.3%	57.2%
China	18,643	27,184	15,634	14.8%	12.1%	22.2%	13.8%	24.6%
Turkey	8,279	8,066	4,296	-11.1%	-14.0%	4.5%	8.5%	6.8%
Bangladesh	3,542	4,744	3,177	7.6%	18.4%	5.8%	4.0%	5.0%
India	3,568	4,331	3,003	3.5%	8.1%	14.1%	3.0%	4.7%
Tunisia	2,482	2,612	1,410	0.5%	-16.2%	-0.3%	2.8%	2.2%
EU Intra	46,919	50,961	27,136	-1.5%	-6.6%	4.1%	48.7%	42.8%
Germany	7,433	8,837	4,966	5.4%	-2.4%	6.4%	7.4%	7.8%
Italy	7,147	7,693	3,952	0.2%	-12.9%	2.7%	7.5%	6.2%
Belgium	4,518	5,133	2,708	3.0%	-4.1%	7.2%	4.3%	4.3%
France	4,004	4,595	2,516	-4.3%	-2.3%	8.5%	4.0%	4.0%
Netherlands	3,452	3,877	2,137	-3.2%	-3.7%	6.8%	3.5%	3.4%
Spain	2,350	3,255	1,841	10.7%	7.0%	11.6%	2.3%	2.9%
TOTAL	155,393	169,306	89,778	-2.4%	-9.0%	4.7%	100.0%	100.0%
EU Extra	70,106	82,522	45,854	0.9%	-2.9%	7.8%	43.2%	51.1%
China	22,698	32,866	18,641	12.9%	7.6%	21.5%	10.7%	20.8%
Turkey	11,524	11,403	5,929	-10.9%	-15.6%	5.0%	7.3%	6.6%
India	5,578	6,468	4,044	-0.5%	0.1%	10.8%	3.2%	4.5%
Bangladesh	3,718	5,009	3,317	7.4%	17.1%	6.2%	2.6%	3.7%
Tunisia	2,697	2,870	1,553	-0.1%	-15.9%	0.3%	1.9%	1.7%
EU Intra	85,287	86,784	43,923	-5.4%	-14.6%	2.3%	56.8%	48.9%
Germany	15,371	16,574	8,549	-1.4%	-14.0%	3.8%	10.0%	9.5%
Italy	14,637	13,969	6,874	-6.8%	-19.1%	0.0%	9.9%	7.7%
Belgium	8,633	9,023	4,550	-3.3%	-13.2%	3.7%	5.5%	5.1%
France	7,419	7,398	3,796	-8.2%	-13.1%	2.7%	4.9%	4.2%
Netherlands	6,252	6,569	3,445	-5.5%	-10.6%	4.4%	4.0%	3.8%
Spain	4,211	4,847	2,573	1.0%	-5.6%	5.4%	2.7%	2.9%

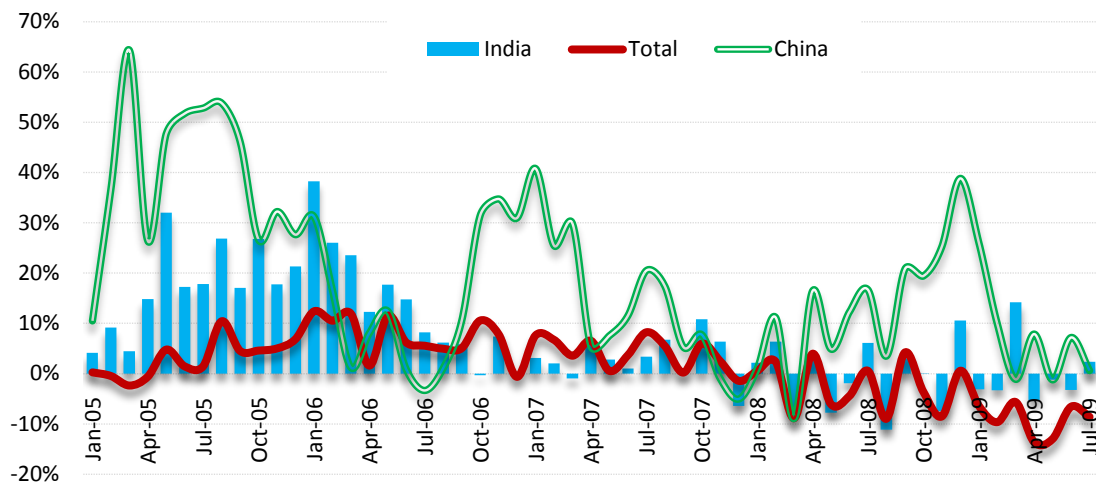
Source: Eurostat, IMaCS Analysis

Textiles

As can be seen from the figure below, EU imports of T&C have been declining from around mid-2008. The decline has been sharper for intra-EU trade, as higher cost imports have been replaced by extra-EU imports from China and other low-cost supplier nations. Nevertheless, even low-cost nations have witnessed a yoy decline in exports to EU.

EU Monthly Imports of T&C

yoy growth

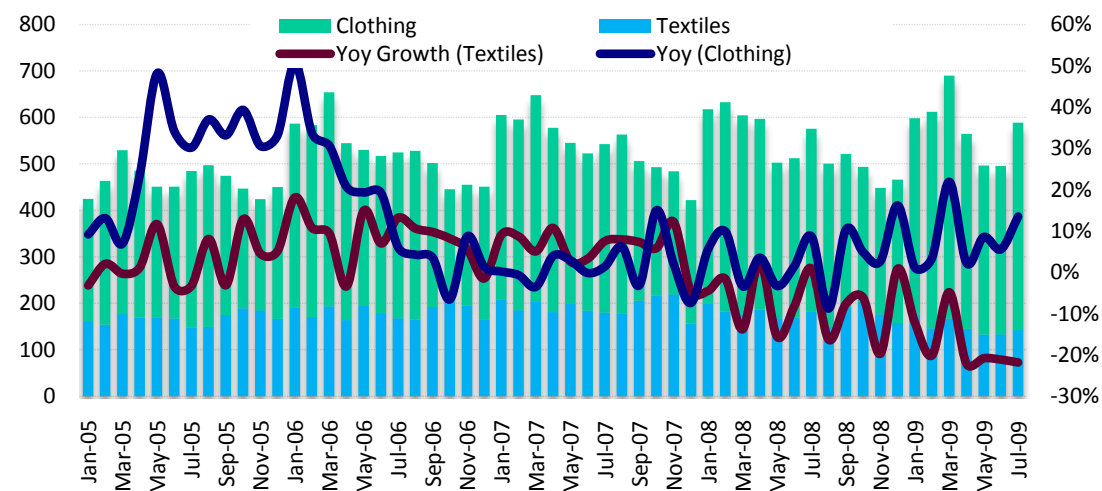


Source: Eurostat, IMAcS Analysis

During 7M2009, while India's exports of textiles to EU declined 17.5% (yoy) to Euro 1,041 million, clothing exports increased 8.1% (yoy) to Euro 3,003 million. As can be seen from the figure below, while clothing exports from India to EU have staged a recovery, exports of textiles continue to decline.

EU Monthly Imports of T&C from India

Euro million, yoy growth



Source: Eurostat, IMAcS Analysis

Textiles

EU clothing imports from India have relatively well resisted the economic recession and increased competition from China. This is attributable to stronger sales to UK and Spain, as Indian exporters cut prices. The fall in the rupee has however resulted in lower unit prices.

Since the ATC/MFA ended in January 2005, developing countries such as China and India have increased their market share over 2004 levels mainly at the expense of other EU traditional sourcing countries within and outside the EU. EU imports from China increased 40% in 2005, compared with a growth of 12.5% in 2004. However, imports from China increased only a low rate in 2006-07 reflecting the effect of safeguard restrictions on the volume of shipments that were agreed upon in 2005. These restrictions benefitted exporters from Bangladesh, Cambodia, and to a lesser extent India. India's exports increased sharply during 2005, but growth moderated sharply from mid-2006 because of increased competition from other nations, notably Bangladesh. Overall, India and Vietnam have been the most successful performers among competitive Asian suppliers (other than China). Sri Lanka and Bangladesh experienced deterioration in market share in 2005, but after the initial shock of quota removal had worn off, both gained market share. Other countries in Asia lost share, notably Indonesia, Malaysia, Philippines, and Thailand.

Quarterly Growth in EU Imports of T&C-Select Countries

Yoy, percent

Period	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
TOTAL	3.5%	4.5%	2.5%	-2.1%	-2.3%	-1.4%	-4.1%	-7.3%	-11.1%
EU-27 EXTRA	2.4%	5.8%	2.2%	-0.4%	0.2%	0.3%	3.7%	-0.4%	-4.9%
Bangladesh	-1.5%	-3.4%	-7.2%	3.7%	4.3%	1.6%	23.2%	21.1%	15.3%
China	8.4%	14.1%	1.0%	1.5%	11.0%	13.3%	26.8%	13.0%	4.8%
India	3.3%	3.7%	3.5%	0.4%	-2.0%	-0.9%	0.6%	2.4%	-3.4%
Indonesia	-12.2%	-8.5%	-8.5%	-3.2%	-4.7%	-12.8%	-9.5%	-2.0%	-6.7%
Morocco	6.6%	10.6%	8.7%	2.1%	-0.9%	-6.3%	-14.8%	-14.4%	-17.8%
Pakistan	5.8%	3.8%	7.6%	-8.8%	-0.7%	1.1%	0.5%	3.1%	-9.3%
Sri Lanka	19.0%	13.2%	1.7%	12.3%	0.0%	-3.1%	20.6%	13.5%	10.0%
Switzerland	6.4%	6.6%	8.1%	-5.2%	2.1%	-2.0%	-11.7%	-16.4%	-21.7%
Tunisia	9.3%	3.4%	1.1%	1.4%	0.6%	0.9%	-3.4%	-14.2%	-16.1%
Turkey	7.4%	6.3%	5.3%	-5.0%	-10.9%	-11.9%	-16.1%	-16.0%	-15.8%
US	-7.6%	-2.6%	-8.4%	-8.1%	-2.7%	-1.6%	-0.6%	-4.5%	-18.4%
Vietnam	8.4%	13.7%	11.1%	9.5%	7.7%	6.4%	10.5%	3.2%	2.4%
EU-27 INTRA	4.4%	3.3%	2.8%	-3.5%	-4.4%	-3.1%	-10.8%	-13.6%	-16.4%
Austria	6.8%	4.3%	2.4%	-0.9%	-2.4%	-5.2%	-12.7%	-18.9%	-19.2%
Belgium	1.2%	4.7%	3.5%	-2.1%	-3.4%	1.8%	-9.5%	-10.3%	-13.6%
France	6.1%	7.2%	3.6%	-5.9%	-12.1%	-5.1%	-10.3%	-13.3%	-13.7%
Germany	5.9%	5.2%	6.0%	0.9%	3.4%	-0.6%	-9.5%	-12.6%	-17.7%
Italy	11.4%	-10.0%	2.6%	2.8%	-16.4%	3.6%	-15.5%	-19.0%	-21.2%
Netherlands	9.2%	5.6%	3.1%	-3.0%	-3.1%	-5.4%	-10.6%	-8.5%	-14.7%
Poland	4.9%	13.0%	19.4%	16.1%	25.0%	18.6%	-0.9%	-2.6%	-8.6%
Portugal	4.2%	1.5%	7.6%	-6.0%	-13.6%	-6.4%	-15.5%	-16.9%	-12.1%
Spain	4.2%	9.0%	10.2%	0.8%	1.4%	3.6%	-1.8%	-6.2%	-5.0%
UK	8.0%	8.5%	4.7%	-5.7%	-5.9%	-2.5%	-10.1%	-16.3%	-15.4%

Source: Eurostat, IMaCS Analysis

Textiles

During 4Q2008 and 7M2009, EU imports from India declined for almost all major items of textiles. Textile made ups constitute the largest items of India's textile exports, and they declined 2.2% (yoy) in 4Q2008, and 5.7% (yoy) in 7M2009.

Category-wise EU Imports of T&C from India

	Value (Euro Million)			Growth		
	2008	7M 2008	7M 2009	2008	2009 (7M)	2Q 2009
Textiles	2,138	1,262	1,041	-7.7%	-17.5%	-21.4%
Yarn	471	301	204	-14.6%	-32.1%	-35.3%
Cotton fabrics, woven	129	77	61	-12.8%	-21.0%	-23.0%
Manmade fabrics, woven	85	51	40	3.9%	-20.8%	-28.1%
Other fabrics, woven	126	76	52	-5.4%	-31.4%	-34.5%
Knitted or crocheted fabrics	8	5	4	-35.9%	-25.7%	-33.8%
Tulles, lace, embroidery, etc	66	40	32	2.2%	-20.5%	-24.0%
Special yarns, fabrics, and related	41	25	20	11.2%	-18.8%	-26.7%
Made-ups	775	431	406	-5.3%	-5.7%	-9.3%
Floor Coverings	436	256	222	-7.2%	-13.6%	-18.4%
Clothing	4,331	2,778	3,003	3.5%	8.1%	5.2%
Non-Knit (M/B)	534	345	345	2.5%	0.1%	-0.2%
Non-Knit (W/G)	1,170	838	967	1.5%	15.4%	11.3%
Knit (M/B)	290	184	191	5.1%	3.5%	0.3%
Knit (W/G)	481	295	323	9.1%	9.5%	9.6%
Other apparels	1,201	766	771	-4.3%	0.6%	1.0%
Clothing accessories	216	122	152	24.1%	24.5%	15.4%
Others, headgear	439	229	255	20.4%	11.4%	-6.8%
Total	6,468	4,040	4,044	-0.5%	0.1%	-3.4%

Source: Eurostat, IMaCS Analysis

Although the MFA/ATC has ended, further growth of China's T&C exports continues to depend upon policy responses in developed economies. Both the US and the EU imposed safeguards on Chinese exports. However, after the removal of quotas, EU's clothing imports from China have started recovering, with China's market share of EU's T&C imports increasing from 15.9% in December 2007 to 25.5% in January 2009, before sliding down to 24.2% in July 2009; its share in EU's clothing imports (which were impacted by the safeguards) increased from 19.6% in December 2007 to 29.7% in January 2009, before sliding to 28.8% in July 2009. The removal of safeguards on China's imports has had some adverse impact on exports by India. India's share of EU T&C imports had increased from 3.2% in 2004 to 4.5% in April 2008, but declined to 3.3% in October 2008, before increasing to 4.1% in July 2009. In clothing, India (along with Vietnam and Bangladesh) had clearly benefited from quota on Chinese products, with India's share of EU clothing imports increasing from 3% in September 2005 to 5% in April 2008, even as China's share declined from 21.7% to 17.3%. However, India lost significant market share during April-December 2008, before staging a recovery in recent months, even as China's share has declined.

As China's exports are freed from earlier quotas, competition is expected to intensify in a declining EU market. It is likely that other than low-cost suppliers in Bangladesh, Pakistan, and Vietnam; most Asian

Textiles

suppliers will have to compete on the basis of quality and service orientation. The ASEAN and SAARC member countries have some advantages that could be more fully taken advantage of if their own internal barriers to trade in intermediate textile products and related accessories could be relaxed or removed. This would enable them to locate production activities in the most efficient locations within each grouping using the right to cumulate production under the two-step rule of origin. Exchange rate movements in a number of Asian countries such as India, Philippines, and Thailand may have some important impacts and may drive some relocation of production activity to other countries that have remained more firmly pegged to the US\$, such as Indonesia and Vietnam.

Market Share of EU Imports of T&C-Select Countries

Percent

Period	4Q04	4Q06	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
EU-27 EXTRA	42.7	46.4	46.2	47.7	46.6	50.5	50.0	51.2	49.8
China	10.6	16.2	16.0	17.4	15.9	22.8	21.1	21.2	18.8
Turkey	7.5	7.2	7.4	7.1	7.2	6.2	6.5	6.4	6.8
India	3.0	3.3	3.3	4.2	4.2	3.5	3.5	4.6	4.5
Bangladesh	2.5	2.6	2.4	2.8	2.9	3.1	3.1	3.6	3.8
Tunisia	1.9	1.7	1.6	1.8	2.0	1.4	1.6	1.7	1.8
Pakistan	1.8	1.5	1.6	1.4	1.6	1.5	1.7	1.6	1.7
Morocco	1.7	1.5	1.6	1.6	1.7	1.4	1.5	1.4	1.5
Indonesia	1.1	1.1	0.9	0.9	0.9	0.9	0.9	1.0	0.9
Switzerland	1.0	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Sri Lanka	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.9
EU-27 INTRA	57.3	53.6	53.8	52.3	53.4	49.5	50.0	48.8	50.2
Germany	10.2	9.3	9.7	10.3	10.4	9.4	9.1	9.7	9.6
Italy	10.0	9.1	9.1	8.6	8.7	7.8	8.0	7.5	7.7
Belgium	5.7	5.5	5.6	5.3	5.3	5.4	5.3	5.1	5.2
France	4.8	4.5	4.6	4.6	4.4	4.2	4.3	4.3	4.3
Netherlands	4.0	3.9	3.9	4.0	3.9	4.0	3.6	4.0	3.7
Spain	2.8	2.8	3.0	2.8	2.8	2.8	3.1	2.8	3.0
UK	3.1	2.9	3.0	2.7	2.8	2.7	2.8	2.4	2.7
Poland	1.3	1.3	1.5	1.6	1.7	1.5	1.5	1.7	1.8
Portugal	2.2	1.8	1.9	1.8	1.8	1.5	1.7	1.6	1.7

Source: Eurostat, IMAcS Analysis

POLICY DEVELOPMENTS

No Plan for converting Handlooms into Powerlooms

The Government of India (GoI) is not contemplating any scheme for converting Handlooms into Powerlooms. According to the GoI, handlooms constitute a timeless facet of the rich cultural heritage of India. Tradition of weaving by hand is a part of the country's cultural ethos. As an economic activity, the handloom sector occupies a place second only to agriculture in providing livelihood to the people. The Office of Development Commissioner for Handlooms in the Ministry of Textiles, GoI has also been liberally funding the State Governments for implementing various schemes for handloom weavers.

Funds for Cotton Corporation of India

The GoI has approved the allocation of Rs. 14.73 billion to meet the losses in disposal of Cotton procured under MSP Operations by the Cotton Corporation of India (CCI) during the cotton season 2008-09. However, only Rs. 5 billion has been approved by the Ministry of Finance during the pre-Budget discussion. The state-wise quantity of cotton procured by CCI during each of the last three years and the current year is as follows:

Cotton Procured under MSP by CCI

Thousand bales

CY	2007	2008	2009	2010 (upto 24.11.09)
Punjab	0		1,044	87
Haryana	0		255	22
Rajasthan	0		155	4
Gujarat	0		1,236	0
Maharashtra	540		1,997	1
MP.	90		737	0
AP	528	219	3,276	134
Karnataka	5		163	4
TN	0		0	0
West Bengal	0		0	0
Orissa	16	5	72	0
Total	1,178	223	8,935	251

Assistance to Textile Workers Rendered Jobless

The GoI under Textile Workers Rehabilitation Fund Scheme (TWRFS) provides interim relief to the textile workers rendered unemployed as a consequence of permanent closure of any particular portion or entire textile unit. Assistance under the Scheme is payable to eligible workers only for the purpose of enabling them to settle in another employment. Any worker is eligible provided he/she is engaged in a closed textile unit on the date of its closure continuously for five years or more and earning a wage equivalent of Rs. 2,500 per month or less for the mills closed between 6.6.1985 to 1.4.1993 and Rs. 3,500 or less thereafter. They should be contributing to the Provident Fund maintained by the Regional Provident Fund Commissioner of the State concerned.

Since inception of the Scheme, a total of 103,755 workers out of 132,956 workers on rolls have been given financial assistance till October 31, 2009 as per the funds available under the Scheme. During the period October 2004 to September 2009, around 77 cotton/manmade fibre textile mills (Non SSI) were closed down. These mills had 22,927 workers on their rolls.

Other Developments

- The Apparel Export Promotion Council (AEPC) has requested the government to probe the reasons for fabric prices jumping by over 50% in the past two months which has forced many garment exporters to cut production or honour contracted quantities at a loss. According to AEPC, weaving units are not making any delivery commitments. Although the fibre and yarn price hikes are being passed on to garment manufacturers, overseas buyers are not able to absorb this hike

Textiles

due to their fixed selling price.

- A recent report by the ICAC has indicated that the increase in the magnitude of the cotton futures prices pass through the seasons indicates that spot prices have become more responsive to daily changes in futures prices. However, while the immediate response of spot prices to futures prices has become more sensitive in recent seasons, the medium-term relationship has remained stable. The results of the analyses suggest that the Cotlook A Index is mainly determined by its value on the previous day, and the latest inter-daily change in the price of the nearby cotton futures contract. Furthermore, the analyses indicate that daily spot prices have become more responsive to changes in futures prices in recent seasons, and a smaller decline in futures prices is required to trigger a decline in the Cotlook A Index today than in previous seasons. One possible driver of this change is the increase in the representativeness of global cotton prices of the Cotlook A Index after changing its basis from Northern Europe to Far East in August 2004. The change reflected the increased relevance of the Far East in world cotton trade. Therefore, the increase in the responsiveness of the A Index to futures prices since 2003-04 might reflect the fact that the A Index had lost representativeness of spot prices by the late 1990s, rather than a change in the way cotton is traded. A correlation analysis on monthly average prices indicates that the correlation between spot and futures prices has remained stable since 2000-01. Therefore, while the short-term relation between spot and futures prices has changed through time, the medium-term relation, which is less influenced by day-to-day changes in prices, has remained stable.

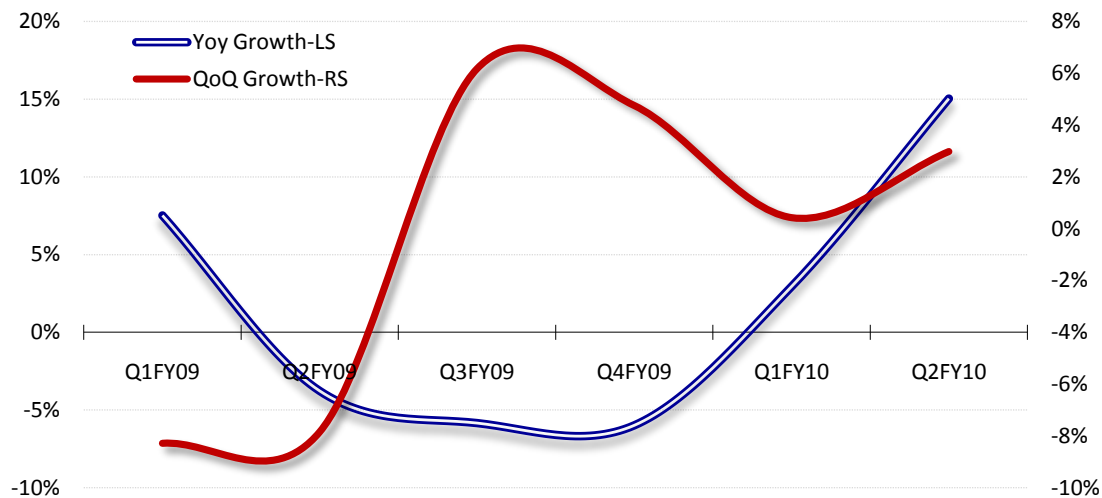
REVIEW OF FINANCIAL PERFORMANCE

Overall, the textile industry has reported worsening financial performance during FY2008 and FY2009, before staging a recovery in FY2010. During FY2008, financial performance was adversely impacted by the rupee appreciation which made Indian T&C exports uncompetitive. During FY2009, while the rupee depreciation has made exports more competition, the sharp slowdown in domestic and export demand has resulted in significant deterioration in financial performance. Although performance has been weak throughout FY2009, there seems to be an improvement during Q4FY2009 and Q1FY2010, attributable to a decline in input costs.

Southern Region

During Q2FY2010, **listed companies with registered offices in the Southern Region** reported a 15% (yoy) increase in operating income (OI) to Rs. 20.72 billion. OI (yoy) growth was modest at 7.5% in H1FY2009, but OI declined in Q3FY2009 and Q4FY2009, as the early signs of recession became evident. The growth in OI during Q1FY2009 transformed into a sharp decline in OI (yoy) in the subsequent three quarters of FY2009. However, OI increased at a slow rate of 3% (yoy) in Q1FY2010, followed by substantially higher growth of 15% (yoy) in Q2FY2010. On a qoq basis however, OI growth has been positive for the past four quarters, as there was some signs of restocking following the sharp decline in sales during late-2008. OI on a (qoq) basis increased 3% in Q1FY2010. On a yoy basis, OI decline seems to have flattened out in Q4FY2009, following a sharp reversal in Q3FY2009.

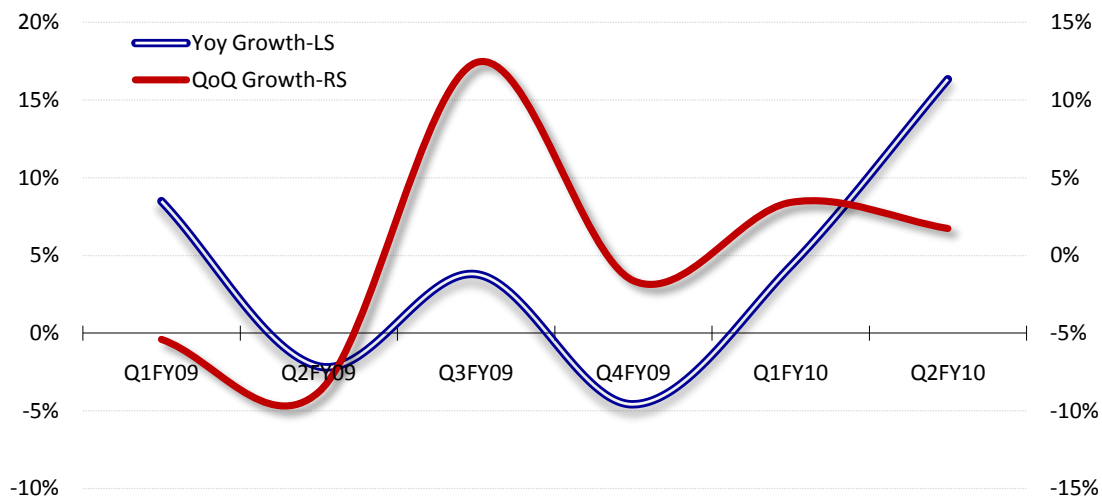
Trends in Operating Income Growth—Southern Region



Source: Compiled by IMaCS

Although OI increased 15% (yoy) in Q2FY2010, raw material costs increased 16.3% (yoy) in Q2FY2010 attributable to increases in prices of both natural and synthetic prices. By comparison, raw material costs had declined in the latter-half of FY2009 primarily because of a decline in purchase volumes (because of lower final product demand) and decline in prices.

Trends in Raw Material Costs—Southern Region



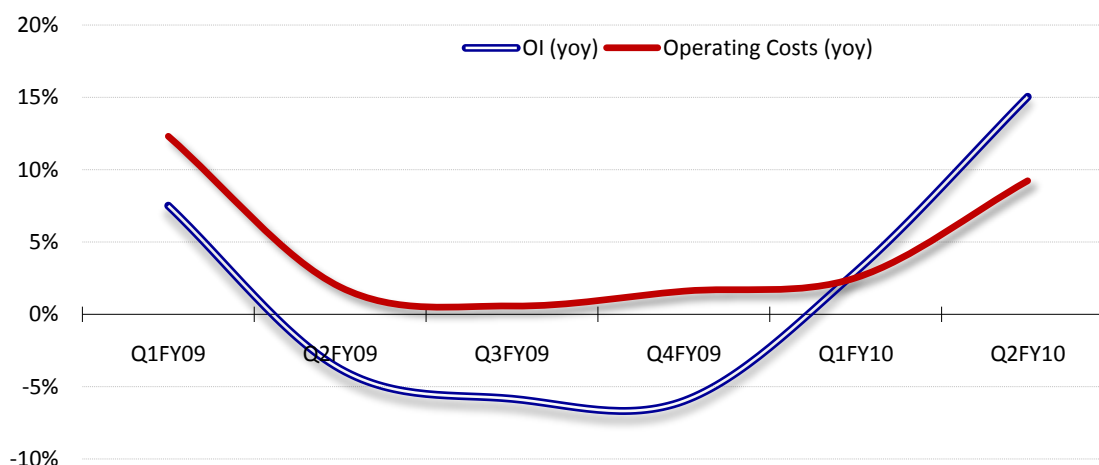
Source: Compiled by IMaCS

Although raw material costs have increased at a higher rate than OI during Q1FY2010 and Q2FY2010, other costs have declined in Q1FY2010 and Q2FY2010 attributable largely to a decline in selling and

administrative costs. However, employee costs have remained stagnant attributable to stickiness of employee costs in the short term.

Thus, the higher increase in raw material costs has been accompanied by a decline in other costs resulting in overall operating costs increasing 9.2% (yoy) in Q2FY2010. In fact, the (yoy) rate of increase in operating costs has been lower than the (yoy) rate of increase in OI during Q1FY2010 and Q2FY2010.

Trends in Operating Income and Operating Costs Growth—Southern Region



Source: Compiled by IMaCS

The following tables provide a quarterly performance comparison of listed textile companies in the Southern region.

Financial Performance—Southern Region

Percent of OI

	FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales/OI	100.0	100.0	100.0	100.0	100.0	100.0
Raw Material Cost	60.9	60.2	63.8	59.9	61.7	60.9
Employee Costs	7.8	7.9	8.4	8.2	8.0	7.7
Power & Fuel Costs	5.3	5.5	5.8	4.6	5.1	4.7
Other Operating Costs	17.9	21.1	19.7	27.4	16.8	16.6
Cost of Sales	91.8	94.7	97.7	100.2	91.5	89.9
OPBDIT	8.2	5.3	2.3	-0.2	8.5	10.1
Interest	5.9	6.2	7.4	6.9	6.5	5.7
Depreciation	6.4	5.9	6.6	5.6	6.3	5.4
OPBT	-4.1	-6.8	-11.7	-12.7	-4.3	-1.1
Other Income	1.7	0.1	3.0	2.1	1.1	1.5
PBT	-2.4	-6.7	-8.7	-10.6	-3.2	0.4
Tax	0.4	-0.6	-0.1	-1.2	0.7	1.1
PAT	-2.8	-6.1	-8.7	-9.4	-3.8	-0.7

Source: Compiled by IMaCS

Textiles

Financial Performance—Southern Region

Rs. Million

	FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales/OI	19,544	18,011	19,125	20,035	20,121	20,722
Raw Material Cost	11,894	10,848	12,195	11,996	12,406	12,621
Employee Costs	1,517	1,431	1,602	1,648	1,604	1,596
Power & Fuel Costs	1,039	987	1,111	927	1,017	984
Other Operating Costs	3,499	3,796	3,771	5,496	3,376	3,438
Cost of Sales	17,948	17,062	18,678	20,068	18,403	18,638
OPBDIT	1,596	950	447	-33	1,719	2,084
Interest	1,160	1,113	1,423	1,377	1,306	1,184
Depreciation	1,242	1,057	1,263	1,131	1,273	1,129
OPBT	-806	-1,221	-2,240	-2,540	-860	-229
Other Income	331	16	573	415	224	306
PBT	-475	-1,204	-1,667	-2,125	-636	77
Tax	80	-114	-11	-243	133	228
PAT	-555	-1,090	-1,657	-1,882	-769	-151

Source: Compiled by IMAcS

As can be seen from the table above, the sharp increase in operating costs resulted in a steep decline in operating margins during FY2009, with operating margins declining in each successive quarter, culminating in an operating loss during Q4FY2009. However, the industry reported an operating profit of Rs. 1.7 billion in Q1FY2010, followed by Rs. 2.08 billion in Q2FY2010 attributable primarily due to accelerating sales growth and decline in selling and administrative costs.

Yoy Growth in Income and Profitability—Southern Region

Percent

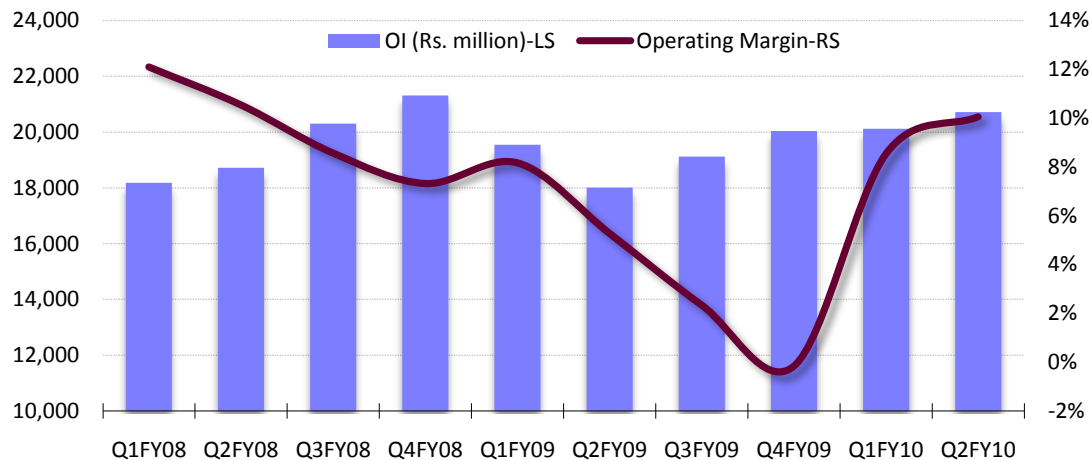
	FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales/OI	7.5%	-3.8%	-5.8%	-6.0%	3.0%	15.0%
Raw Material Cost	8.5%	-2.1%	3.8%	-4.6%	4.3%	16.3%
Employee Costs	7.7%	-3.7%	4.2%	1.0%	5.7%	11.5%
Power & Fuel Costs	-9.4%	5.1%	2.9%	-13.9%	-2.1%	-0.3%
Other Operating Costs	42.1%	17.4%	-10.3%	23.0%	-3.5%	-9.4%
Cost of Sales	12.3%	1.9%	0.6%	1.6%	2.5%	9.2%
OPBDIT	-27.4%	-51.9%	-74.3%	NM	7.7%	119.4%
Interest	18.7%	22.6%	34.1%	21.0%	12.6%	6.3%
Depreciation	15.4%	-5.0%	5.7%	-3.5%	2.4%	6.8%
OPBT	NM	NM	NM	NM	NM	NM
Other Income	-84.0%	-97.8%	-48.5%	-17.8%	-32.3%	1762.8%
PBT	NM	NM	NM	NM	NM	NM
Tax	-57.9%	NM	NM	NM	66.9%	NM
PAT	NM	NM	NM	NM	NM	NM

Source: Compiled by IMAcS, NM: not meaningful

While operating margins have increased in Q2FY2010, interest costs (as percent of OI) continued to increase sharply from 5% in FY2008 to 7% for the most part of FY2009. However, they have shown a decline from 7.4% in Q3FY2009 to 5.7% in Q2FY2010. Depreciation costs have also increased at a high

rate because of the substantial capex incurred in earlier years. The sharp increase in these costs has resulted in the cumulative sample reported a pre-tax loss of Rs. 151 million in Q2FY2010. However, net losses have declined significantly in Q2FY2010. Further, the listed companies reported a nominal pre-tax profit in Q2FY2010, following pre-tax losses reported in six successive quarters till Q1FY2010.

Trends in Operating Income and Operating Margins for Textiles—Southern Region



Source: Compiled by IMaCS

India

During Q2FY2010, although higher volumes resulted in a 12.3% (yoy) increase in OI, lower increase in input and other operating costs resulted in an 89% (yoy) increase in operating profits of a sample of listed Indian companies in the textile industry. OI (yoy) growth declined from 10% in Q2FY2009 to -3% in Q4FY2009, followed by an increase of 6% (yoy) in Q1FY2010.

Yoy Growth in Income and Profitability—India

Percent

	FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales/OI	17.2%	9.6%	1.2%	-2.7%	5.7%	12.3%
Raw Material Cost	18.5%	10.1%	-2.7%	-7.7%	-0.2%	8.8%
Employee Costs	9.8%	4.4%	-0.4%	6.8%	5.7%	10.0%
Power & Fuel Costs	12.5%	18.4%	7.6%	-6.1%	1.4%	-0.3%
Other Operating Costs	32.2%	35.2%	44.5%	7.2%	2.0%	-3.3%
Cost of Sales	20.0%	14.2%	5.6%	-3.4%	0.7%	6.1%
OPBDIT	-6.3%	-27.0%	-39.9%	6.4%	59.2%	89.1%
Interest	38.0%	50.0%	58.3%	32.8%	15.2%	2.9%
Depreciation	14.7%	9.8%	13.0%	7.6%	10.0%	8.8%
OPBT	NM	NM	NM	NM	NM	NM
Other Income	-46.4%	-38.4%	-40.8%	37.1%	-0.9%	-12.1%
PBT	-90.9%	NM	NM	NM	894.6%	NM
Tax	-45.7%	-77.6%	-71.0%	-33.8%	183.1%	485.1%
PAT	NM	NM	NM	NM	NM	NM

Source: Compiled by IMAcS, NM: not meaningful

As can be seen from the above table, operating profits have declined on a yoy basis in the first three quarters of FY2009, with the decline accelerating during Q1FY2009 to Q3FY2009. However, operating profits increased 6% (yoy) in Q4FY2009, 59% (yoy) in Q1FY2010, and 89% (yoy) in Q2FY2010 mainly because of a lower increase in costs and recovery in sales. Operating margins declined from 11.2% in Q2FY2008 to a low of 5.7% in Q3FY2009, but have recovered to 12.6% in Q2FY2010, attributable to a lower increase in operating costs.

The following tables provide a quarterly performance comparison of listed textile companies in India.

Financial Performance—India

Percent of OI

	FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales/OI	100.0	100.0	100.0	100.0	100.0	100.0
Raw Material Cost	63.7	63.9	63.0	59.3	60.2	61.9
Employee Costs	6.2	6.2	6.4	6.5	6.2	6.1
Power & Fuel Costs	3.9	4.2	4.0	3.4	3.7	3.7
Other Operating Costs	17.8	18.2	20.9	22.9	17.2	15.7
Cost of Sales	91.5	92.5	94.3	92.2	87.2	87.4
OPBDIT	8.5	7.5	5.7	7.8	12.8	12.6
Interest	4.9	5.3	6.3	5.9	5.3	4.9
Depreciation	5.0	5.0	5.5	5.2	5.2	4.8
OPBT	-1.4	-2.8	-6.1	-3.2	2.2	2.9
Other Income	1.9	1.4	1.7	2.9	1.7	1.1
PBT	0.4	-1.5	-4.4	-0.3	3.9	4.0
Tax	0.6	0.3	0.3	0.4	1.6	1.6
PAT	-0.2	-1.8	-4.7	-0.7	2.3	2.3

Source: Compiled by IMAcS

Textiles

Financial Performance—India

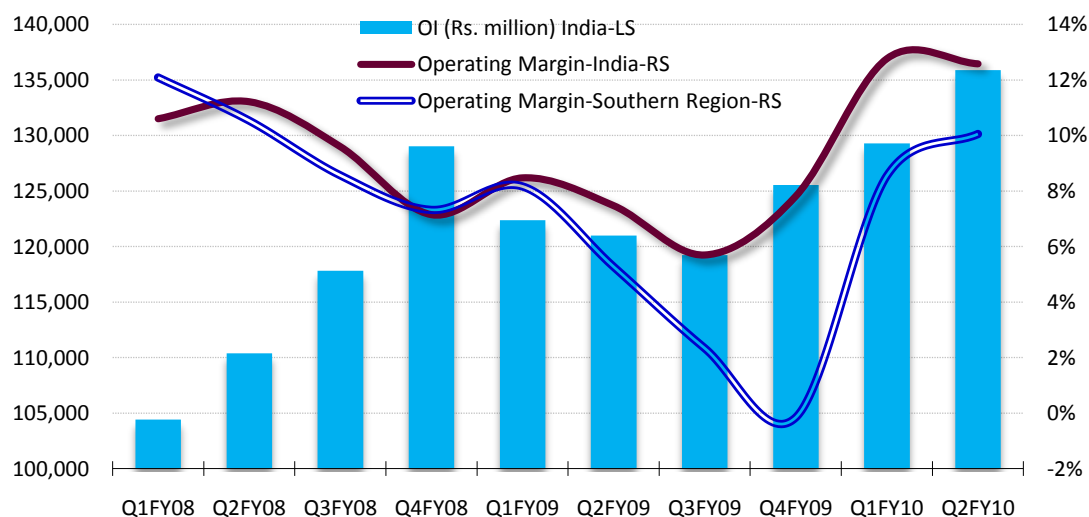
Rs. Million

	FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales/OI	122,357	120,976	119,230	125,547	129,271	135,872
Raw Material Cost	77,955	77,343	75,087	74,445	77,801	84,160
Employee Costs	7,532	7,521	7,637	8,177	7,964	8,274
Power & Fuel Costs	4,725	5,077	4,805	4,321	4,790	5,063
Other Operating Costs	21,781	22,000	24,915	28,796	22,215	21,284
Cost of Sales	111,992	111,940	112,443	115,739	112,770	118,781
OPBDIT	10,365	9,036	6,788	9,808	16,501	17,091
Interest	5,995	6,425	7,510	7,355	6,904	6,614
Depreciation	6,140	6,025	6,554	6,486	6,757	6,557
OPBT	-1,769	-3,414	-7,276	-4,032	2,841	3,920
Other Income	2,283	1,659	2,084	3,682	2,262	1,458
PBT	513	-1,755	-5,192	-350	5,103	5,378
Tax	739	374	367	560	2,091	2,189
PAT	-226	-2,129	-5,559	-910	3,012	3,189

Source: Compiled by IMaCS

As can be seen from the table above, operating profits declined sharply in Q3FY2009. However, they have recovered strongly in Q4FY2009 and reached new peaks thereafter. However, interest and depreciation costs have decline in recent months, resulting in an increase in net profits. The combined sample reported net profit of Rs. 3.01 billion in Q1FY2010 and Rs. 3.19 billion in Q2FY2010, compared with net losses of Rs. 0.91 billion in Q4FY2009. The transformation was mainly because of a significant increase in operating profits.

Trends in Operating Income and Operating Margins—India



Source: Compiled by IMaCS

SHORT-TERM OUTLOOK

The earnings of the textiles industry are not stable because of the cyclical nature of the industry. Policy initiatives by the government are expected to give a boost to integrated players in the organised sector, who would then be able to modernise and improve the quality of the weaving sector. However, the recent economic slowdown has resulted in a significant slowdown in imports of T&C by the US and the EU. India's apparel exports have also been adversely impacted by the removal of US quotas on Chinese products. Indian exporters lowered their prices in 2009 but are still in direct competition with China. Although domestic retail has to some extent buoyed prospects of the sector, even domestic demand has showed signs of slowdown attributable to a slowdown in consumer spending. Margins have come under significant pressure following slowdown in demand, intense competition amongst players, higher input costs, and rising financing costs. For the next few months, sales and profitability could improve from the lows of 2008, as textile and clothing units have reported a recent pick-up in domestic and international demand.

Industry and Economic Update has been prepared by ICRA Management Consulting Services Limited (IMaCS) for the Confederation of Indian Industry (CII).

The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty expressed is made to their accuracy, completeness or correctness. This document is for information purposes only. The information contained in this document is published for the assistance of the recipient but is not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient. This document is not intended to be a substitute for professional, technical or legal advice. All opinions expressed in this document are subject to change without notice.

Neither IMaCS nor CII, nor other legal entities in the group to which it belongs, accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection herewith.