Confederation of Indian Industry

CII Southern Region

Industry and Economic Update

Textiles

January-March 2010

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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.

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.

India's Cotton Acreage and Production

	Area (mha)			Production (mt)		
CY	**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

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

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

	Mkg						Growth	
CY	**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%**

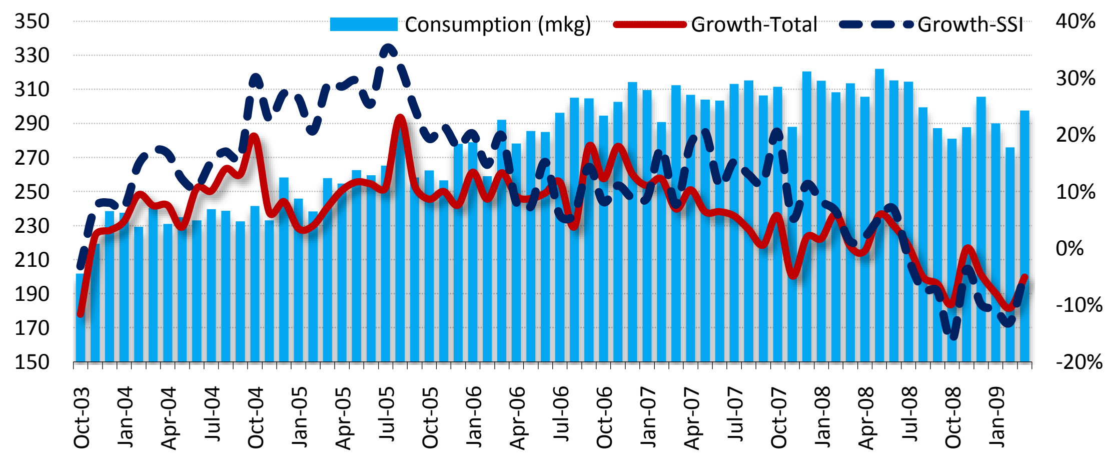
Source: Cotton Corporation of India (CCI), IMaCS Analysis

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

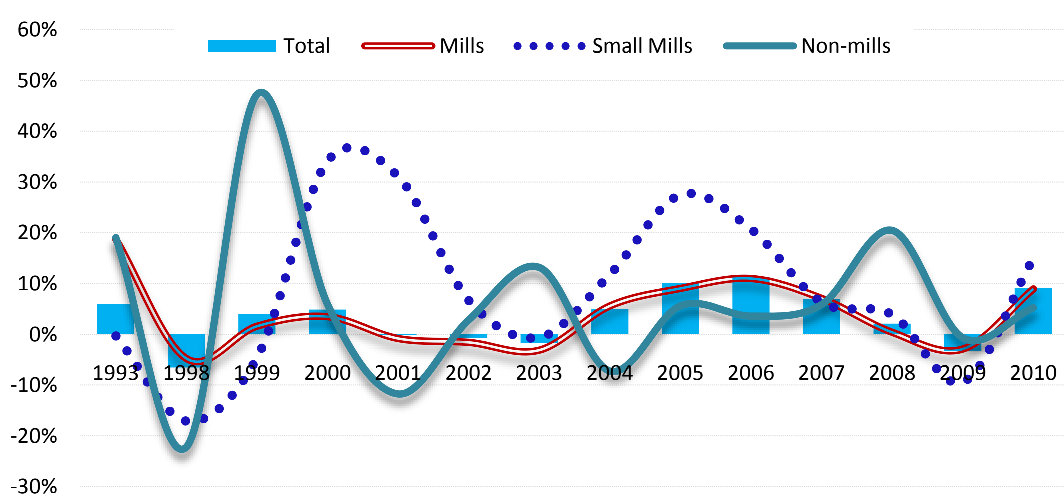


Source: Textiles Commissioner, IMaCS Analysis

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

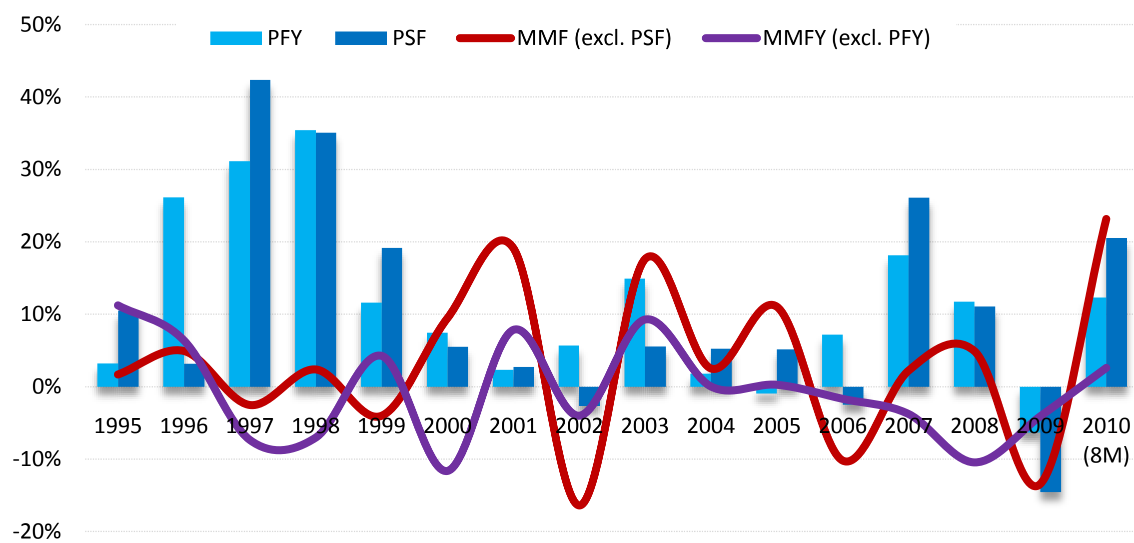


Source: CCI, IMaCS Analysis

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. The decline in production was 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 showed a significant decline inspite of some capacity addition coming in. VFY production has been impacted by decline in demand and rising crude prices.

Yearly Growth in MMF and MMFY Production



After a 9.8% decline in FY2009, India's synthetic fibre production increased 15.9% (yoy) during 8MFY2010 (April-November 2009) to 1,854 mkg. Production of MMF, which had declined 14.2% in FY2009, increased 21.3% (yoy). Production of MMFY, which had declined 6.2% in FY2009, also increased 11.7% (yoy).

Domestic Production and Consumption of MMFs and MMFYs

FY	Volume (million kg)		Growth		
	8M FY2010	8M FY2010	2008	2009	8M FY2010
Production					
MMFs	**690**	**837**	**9.2%**	**-14.2%**	**21.3%**
Viscose (VSF)	157	194	13.4%	-16.8%	23.0%
Polyester (PSF)	479	577	11.1%	-14.5%	20.5%
Acrylic (ASF)	51	65	-16.4%	-2.1%	25.6%
Polypropylene (PPSF)	2	2	-2.6%	0.0%	-15.0%
MMFY	**910**	**1,017**	**10.1%**	**-6.2%**	**11.7%**
Viscose (VFY)	28	29	-5.4%	-16.9%	1.4%
Polyester (PFY)	853	959	11.7%	-6.3%	12.3%
Nylon (NFY)	19	20	-14.4%	1.6%	5.9%
Polypropylene (PPFY)	10	10	-21.4%	43.5%	-0.2%
Consumption					
MMFs	**604**	**762**	**6.2%**	**-11.1%**	**26.3%**
Viscose (VSF)	142	177	5.6%	-11.0%	24.6%
Polyester (PSF)	407	516	9.4%	-12.0%	26.8%
Acrylic (ASF)	53	68	-11.9%	-4.3%	28.5%
Polypropylene (PPSF)	2	2	-14.5%	-6.8%	-2.8%
MMFY	**915**	**1,019**	**8.4%**	**4.7%**	**11.3%**
Viscose (VFY)	29	31	-1.3%	4.3%	7.2%
Polyester (PFY)	855	958	10.3%	4.3%	12.1%
Nylon (NFY)	20	20	-25.1%	5.7%	2.8%
Polypropylene (PPFY)	11	9	-22.8%	40.9%	-20.9%

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%**

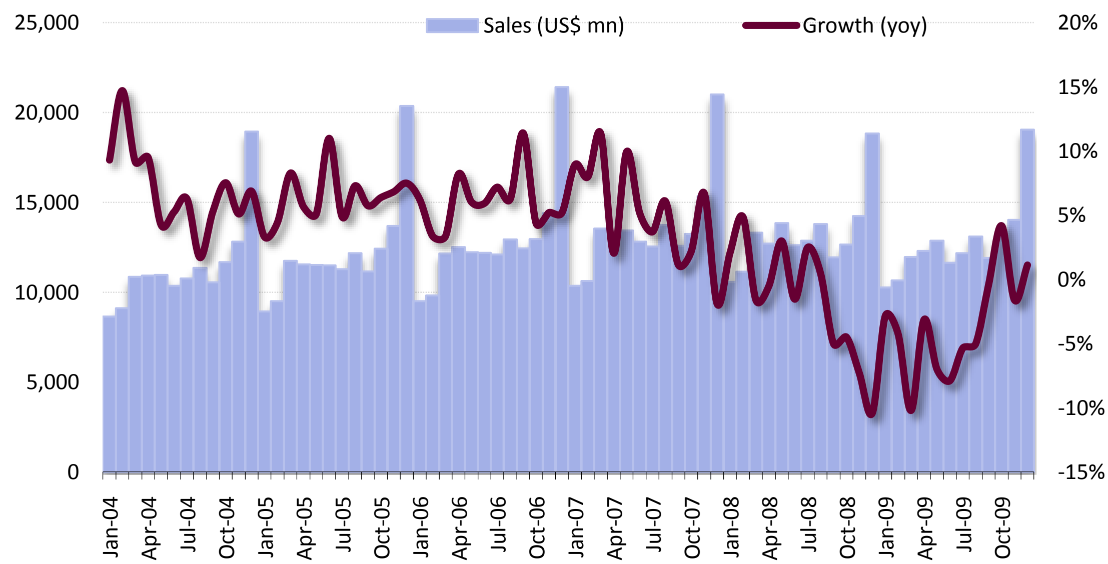
Demand for textile fibres is expected to have declined decline in 2009, before posting a moderate recovery from late-2009. From an average growth of 6.6% during CY2005-07, cotton consumption growth is expected to decline 12% in CY2009, before increasing at a modest rate of 2-2.5% in CY2010. World MMF 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 3.4% in 2009 to US$153.22 billion. In absolute terms, retail sales of clothing and clothing accessories declined by US$5.4 billion over 2008 levels, and by US$8.9 billion over 2007 levels. Overall, US domestic demand declined over five quarters till 3Q2009, followed by a modest increase of 1.1% (yoy) in 4Q2009. This is largely attributable to the base effect (retail sales had declined 8% (yoy) in 4Q2008). 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



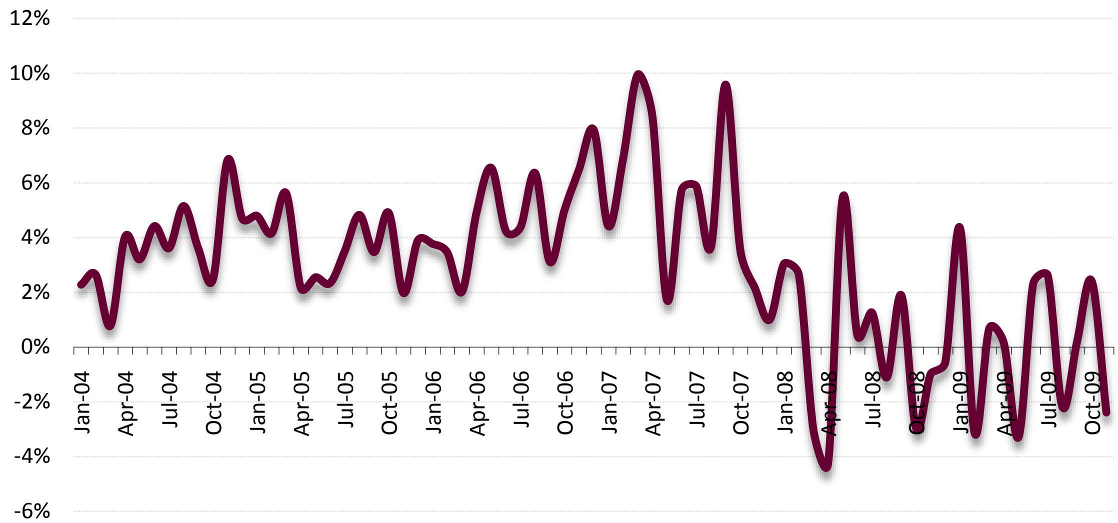
Source: US Census Bureau, IMaCS Analysis

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. 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. Recent data suggest there was significantly more growth in 4Q2009 than was previously anticipated, and that strength could continue into the first half of 2010. However, some of the support to that growth is temporary in nature, and the US economy could slow down again in the second half of 2010. Slower growth will reflect stockbuilding's dwindling contribution to growth as well as the expectation that policy will be getting less supportive. Heightened economic uncertainty is inducing households, even those that can afford it, to postpone purchases of non-essential items. There are more mortgage foreclosures expected in 2010, and the bankruptcy rate is still rising. Consumer confidence remains very weak, and consumers are continuing to cut back on debt. 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 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. EU clothing retail sales rebounded in October 2009, indicating some recovery. Retail sales in December 2009 were relatively good in the European Union (EU) with all three largest markets (France, Germany, UK) reporting a rebound of clothing consumption. However, January 2010 sales data could be disappointing because of post-Christmas slump, cold weather, and high unemployment rates.

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 have declined 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 have declined 12.2% in CY2009 due to sharply lower global demand. Cotton mill use is expected to have declined in almost all major countries. Cotton production is estimated to have exceeded 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% 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 2.4% 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 2008	Mt 2009	Mt 2010	Growth 2008	Growth 2009	Growth 2010
Production	**26.11**	**23.39**	**22.37**	**-1.7%**	**-10.4%**	**-4.4%**
China	8.06	7.99	6.97	4.2%	-0.8%	-12.8%
India	5.23	4.92	5.12	10.1%	-5.8%	4.0%
United States	4.18	2.79	2.70	-11.0%	-33.3%	-3.2%
Pakistan	1.94	1.96	2.13	-10.1%	1.1%	8.9%
Brazil	1.60	1.19	1.21	5.1%	-25.5%	1.3%
Uzbekistan	1.16	1.00	0.96	0.0%	-14.0%	-4.3%
Australia	0.14	0.33	0.38	-52.6%	134.4%	16.7%
Consumption	**26.32**	**23.41**	**24.62**	**-0.9%**	**-11.1%**	**5.2%**
China	10.56	9.09	9.80	1.0%	-13.9%	7.8%
India	4.05	3.90	4.18	2.8%	-3.8%	7.3%
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%
United States	1.09	0.71	0.75	-3.6%	-35.1%	6.0%

Source: US Department of Agriculture (USDA)

World production is forecast to lag mill use in CY2010, resulting in cotton stocks declining to 10.75 mt by end-CY2010.

World Cotton Demand and Supply

CY	Volume (mt) 2000-05	2006	2007	2008	2009	2010	Growth 2008	2009	2010
Opening Stock	10.06	11.61	12.29	12.60	12.03	12.34	2.7%	-4.5%	2.6%
Production	21.21	25.64	26.75	26.03	23.40	22.22	-2.7%	-10.1%	-5.0%
Consumption	21.09	24.96	26.37	26.47	23.24	23.80	0.2%	-12.2%	2.4%
Exports	6.68	9.74	8.11	8.36	6.56	7.09	3.1%	-21.5%	8.1%
Closing Stock	10.21	12.29	12.72	12.03	12.34	10.75	-4.5%	2.6%	-12.9%

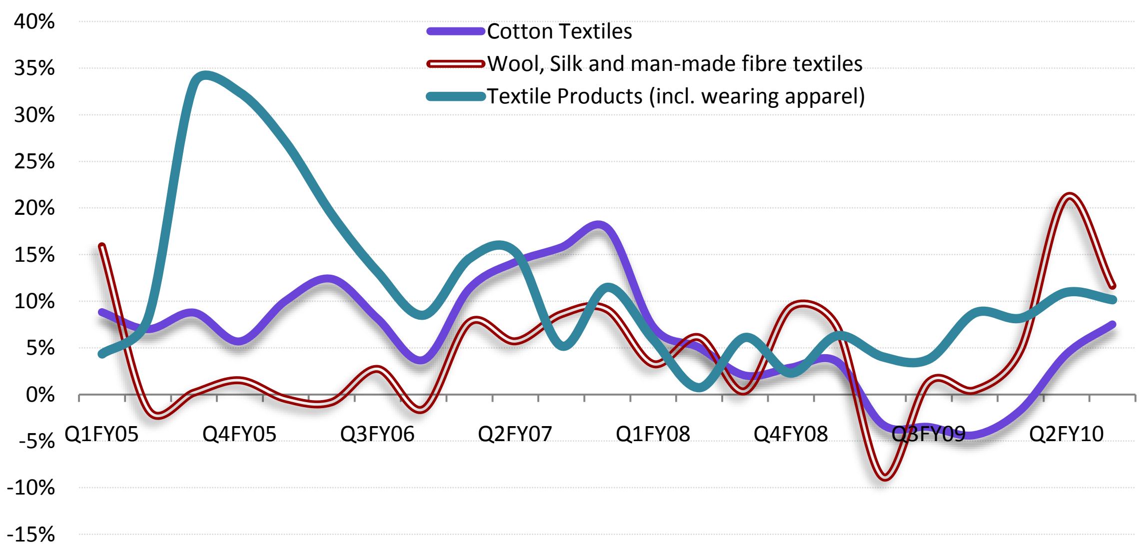
Source: ICAC, IMaCS Analysis

Strong 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 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 from Q2FY2010.

Quarterly Growth in IIP for Textile Products

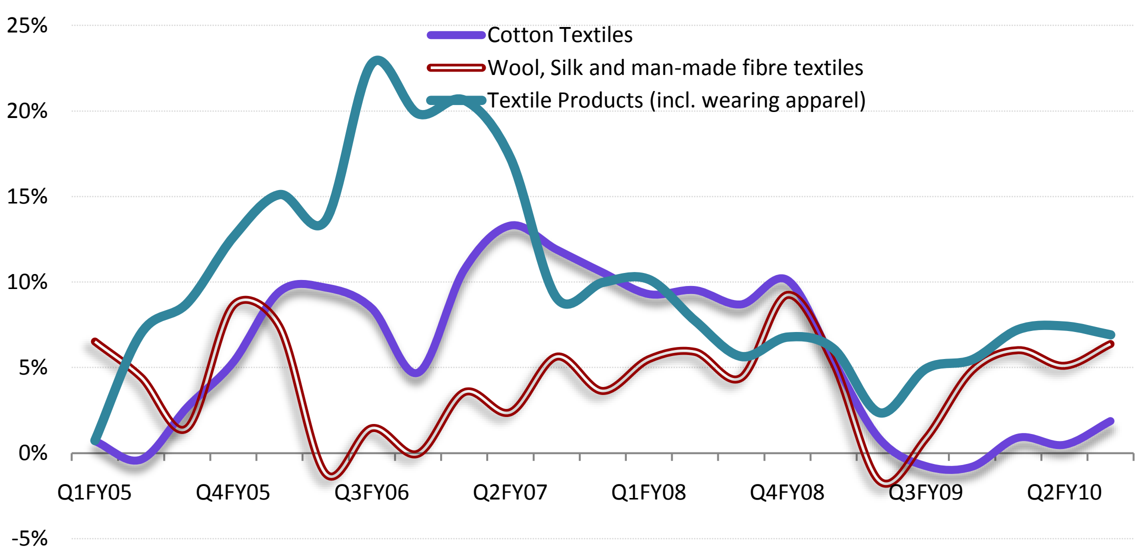
yoy



However, the recent high growth is partly attributable to the base effect. On a 2-year basis, growth has been still lower as can be seen from the figure below.

Quarterly Growth in IIP for Textile Products

2-year growth, 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. 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 modest rate in Q1FY2010 followed by higher growth subsequently. India's fabric production increased at a high rate of 10.7% (yoy) in 8MFY2010 to 40,420 msm. The growth was primarily driven by a 12.8% (yoy) increase in output of decentralised hosiery sector to 9,047 msm, alongwith a 12.5% (yoy) growth in output of powerloom sector to 25,156 msm.

Sector- and Fabric-wise Production

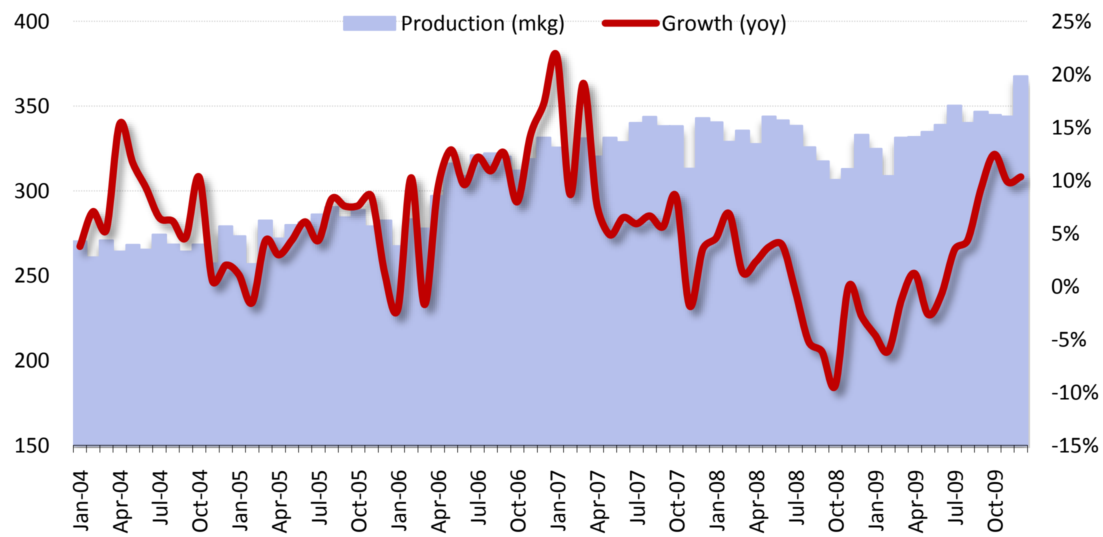
	Production (msm)		Growth		
8MFY	2009	2010	2008	2009	8M FY2010
Cotton	**17,868**	**19,084**	**3.7%**	**-1.1%**	**6.8%**
Mills	836	835	-4.3%	0.9%	-0.1%
Handloom	3,880	3,883	6.3%	-3.9%	0.1%
Decentralised Powerloom	6,391	6,802	2.9%	-3.0%	6.4%
Decentralised Hosiery	6,761	7,564	4.0%	2.3%	11.9%
Blended	**4,495**	**5,033**	**0.1%**	**-1.8%**	**12.0%**
Mills	283	306	27.9%	0.9%	8.1%
Handloom	78	76	24.2%	-4.1%	-2.6%
Decentralised Powerloom	3,165	3,561	-2.1%	-3.1%	12.5%
Decentralised Hosiery	969	1,090	-0.2%	2.3%	12.5%
100% NC	**13,642**	**15,791**	**8.3%**	**-3.0%**	**15.8%**
Mills	74	51	-0.9%	0.9%	-31.1%
Handloom	478	554	3.9%	-3.9%	15.9%
Decentralised Powerloom	12,797	14,793	9.2%	-3.1%	15.6%
Decentralised Hosiery	293	393	-15.0%	2.3%	34.1%
Total	**36,005**	**39,908**	**4.9%**	**-1.9%**	**10.8%**
Mills	1,193	1,192	2.0%	0.9%	-0.1%
Handloom	4,436	4,513	6.3%	-3.9%	1.7%
Decentralised Powerloom	22,353	25,156	5.6%	-3.1%	12.5%
Decentralised Hosiery	8,023	9,047	2.6%	2.3%	12.8%
Khadi, Wool and Silk	**512**	**512**	**6.1%**	**0.0%**	**0.0%**
Total	**36,517**	**40,420**	**4.9%**	**-1.9%**	**10.7%**

Source: Textiles Commissioner, IMaCS Analysis

Modest Five 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

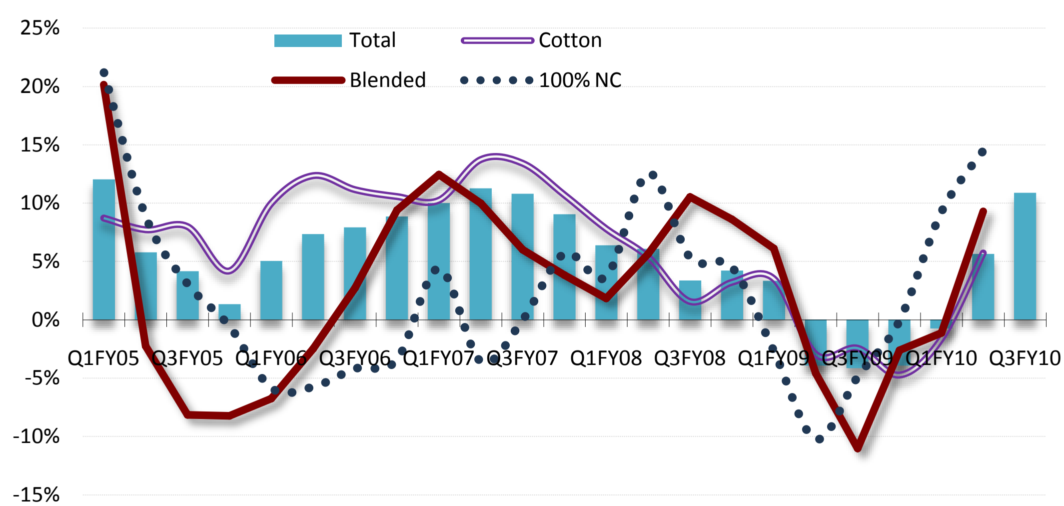


Source: Textiles Commissioner, IMaCS Analysis

Following four quarters of decline, India's spun yarn production is estimated to have increased 5.6% (yoy) in Q2FY2010 to 1.04 mt, with varying degree of recovery in all segments. Production growth accelerated to 10.9% (yoy) in Q3FY2010 to 1.06 mt, representing the third successive quarter of increased production.

Growth in Spun Yarn Production

yoy



Source: Textiles Commissioner, IMaCS Analysis

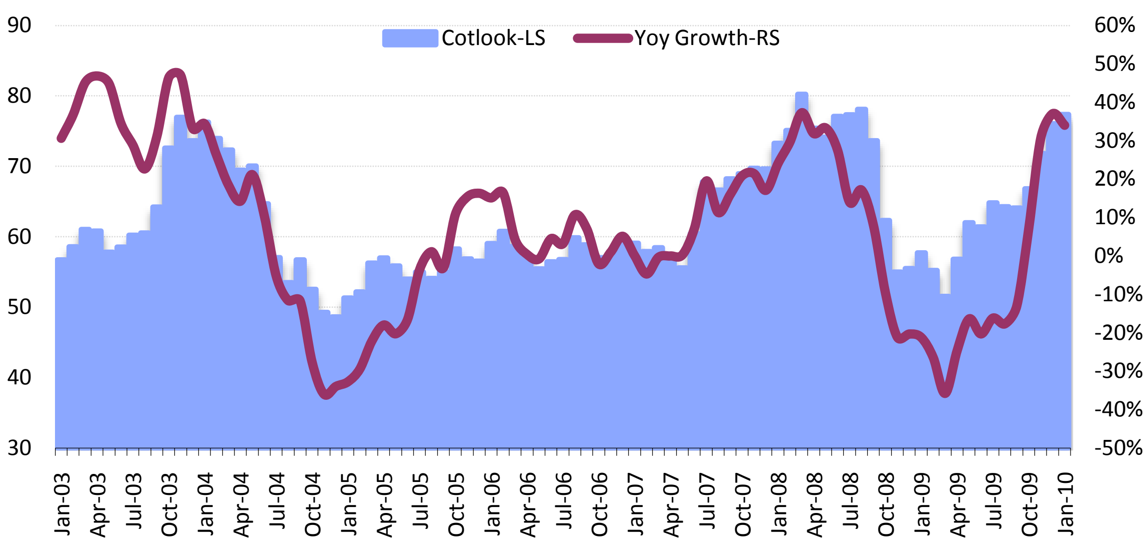
Recent Increase in World Fibre Prices

Cotton

World cotton prices had increased sharply during CY2003-08. During CY2008, the Cotlook A index increased sharply to US$1.77/kg in March 2008 before declining sharply from August 2008, primarily because of increases in prices of competing crops and the increasing role of commodity investment funds. Having declined by roughly 2 cents (per kg) during September 2008, the Cotlook A index declined 59 cents during September 2008-March 2009. Lower expected global economic growth in 2009, projected declines in developed economies' income in 2009, tightening credit availability for spinning mills, and uncertainty regarding the consequences of the global financial crisis, have severely affecting the prospects for cotton demand in CY2009. However, prices increased 57 cents/kg during April 2009-January 2010, or by 50%. Cotton prices increased during April-May 2009 in line with a general rally in equity and commodity markets and a continuous fall of the dollar. However, this rally could not be sustained in June 2009 as demand continued to remain subdued on the physical market, and the US$ 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 the second half of 2009. 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)

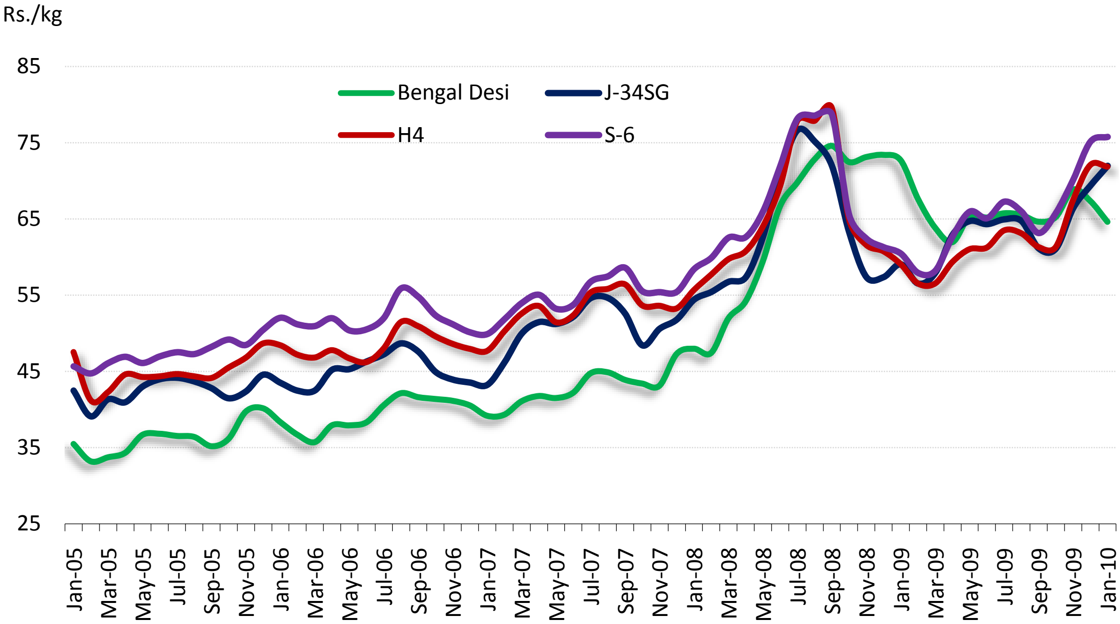


Source: World Bank, IMaCS Analysis

During 2010, cotton prices increased sharply during February 2010 with significant increases in India and Pakistan. This increase was partly attributable to revised estimated by USDA, which raised its projection for global cotton use in CY2010, as a result of a stronger rebound than previously expected in China's and India's textile production. Ending stocks for CY2009 were sharply increased but this resulted in a fall in the stocks-to-use ratio for the current CY2010 season. In India, the slow decline of January-February 2010 was reversed over the announcement of lower cotton arrivals on the local markets.

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, 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 20-50% during April-December 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



Source: CCI, IMaCS Analysis

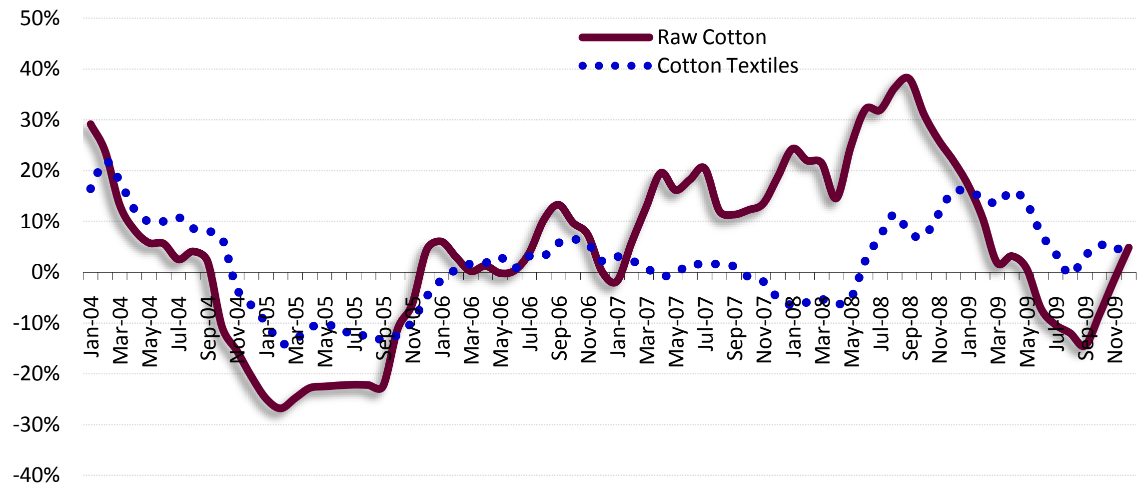
In India, the wholesale price index (WPI) for raw cotton increased 24% in FY2009, compared with an increase of 17.4% in FY2008. By comparison, the WPI for cotton textiles increased at a lower rate of 7.8% in FY2009, compared with a decline of 1.8% in FY2008. During 2008-09, although cotton prices have 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 increasing at a higher rate than the WPI for raw cotton. In fact, the WPI

[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.

for cotton textiles increased 6% (yoy) in December 2009, compared with a (yoy) increase of 4.8% for raw cotton.

Monthly Change in WPI for Raw Cotton and Cotton Textiles

yoy



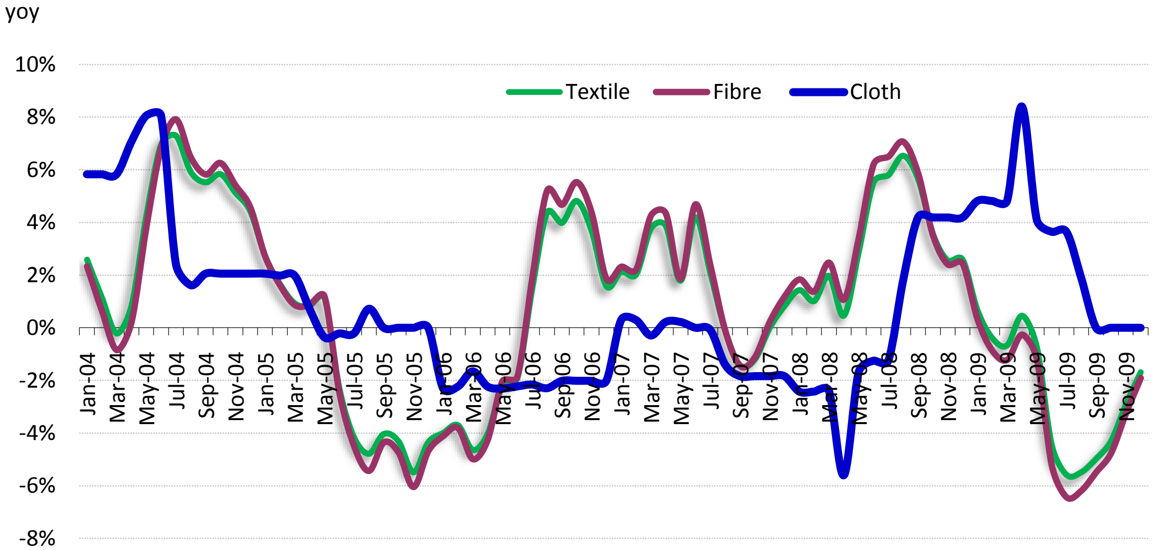
Source: GoI, IMaCS Analysis

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.

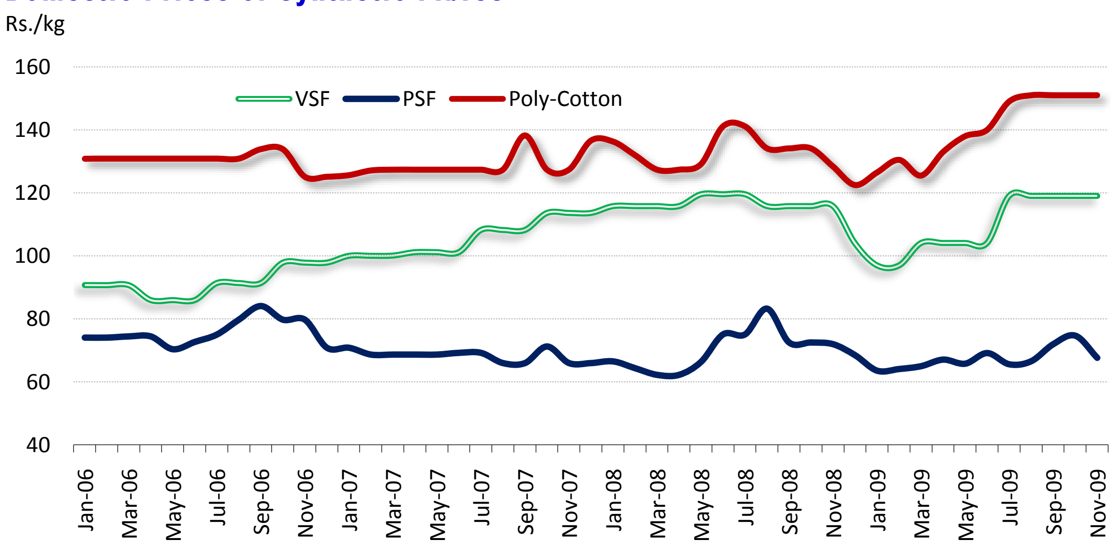
During FY2010, prices had moved up marginally in Q1FY2010 because of higher raw material costs and stronger demand from spinners and filament weavers. Production in Surat, the main manufacturing hub for polyester textured yarns in India, declined because of power shortages. Polyester prices increased 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 started declining in September 2009, in line with international market trends. Lower demand 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 were the reasons for the fall in yarn prices. However, PSF prices have again increased in recent months because of higher raw material costs. In January 2010, PSF prices averaged Rs. 73/kg, representing an increase of 11% (yoy). Low demand from filament textile producers is however putting pressure on textured yarn prices. PSF prices have increased because of a sharp increase in glycol prices, mostly due to a similar increase of MEG prices on the global market, being partly explained by an outage at a Saudi Arabian plant. However, MEG prices are now softening on the international market and some stability around the new price levels is expected in March 2010. PSF prices are now 14% to 26% above their levels a year ago. However, prices of textured polyester yarns have not risen in comparison to the increase in raw material prices mainly because of poor demand.

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



Source: GoI, IMaCS Analysis

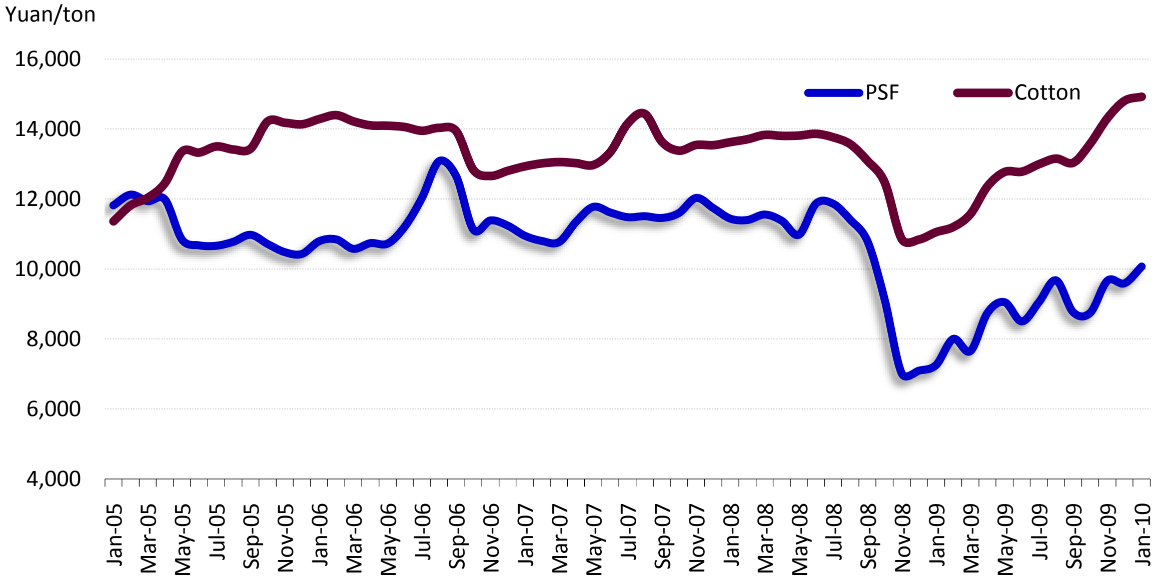
Domestic Prices of Synthetic Fibres



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. Prices have increased from mid-2009 reflecting a new rise in raw material costs, primarily ethylene and MEG. In January 2010, PSF prices further increased in the Chinese market, reflecting the recent surge in glycol prices. However, prices have softened thereafter as demand from yarn producers declined in the pre-holiday period. Nevertheless, prices have now reached an 18-month high in China.

Average Price of PSF and Cotton in China



Source: IMaCS Analysis

MILLS CLOSURE

As of November 2009, a total of 418 mills were closed with an installed capacity of 7.64 million spindles, 0.1 million rotors, 0.04 million looms and 0.261 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 418 at end-November 2009. Of these, while closed spinning mills have increased from 318 at end-March 2008 to 349 at end-November 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			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
Sep-09	346	69	415	76.03	99.85	34.00	260.0
Oct-09	347	69	416	76.12	99.85	34.00	260.0
Nov-09	347	69	416	76.12	100.02	34.00	261.0

Source: Textiles Commissioner, IMaCS Analysis

Nearly 45% of the mills closed as of November 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	Capacity (thousands)			Employees (thousands)
	Total	Spindles	Rotors	Looms	
AP	33	0.49	0.00	0.00	0.01
Kerala	12	0.22	0.00	0.00	0.00
TN	115	1.55	0.01	0.00	0.00
Karnataka	27	0.47	0.01	0.00	0.00
Pondicherry	1	0.00	0.00	0.00	0.04
Southern States	**188**	**2.73**	**0.02**	**0.00**	**0.06**
Rest of India	**230**	**7,635.86**	**100.00**	**33.98**	**0.20**
Total	**418**	**7,638.59**	**100.02**	**33.99**	**0.26**

Source: Textiles Commissioner, IMaCS Analysis

INVESTMENTS AND PROJECTS

Data available upto December 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 Texyarn Ltd.	1,750	Under Execution
TN	Cotton Yarn (Thappukundu) Project	Shri Renuga Textiles Ltd.	1,500	Under Execution
TN	Woven Fabrics (Perundhurai) 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
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]	Vasantha 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 Corpn. 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	Winndsor 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

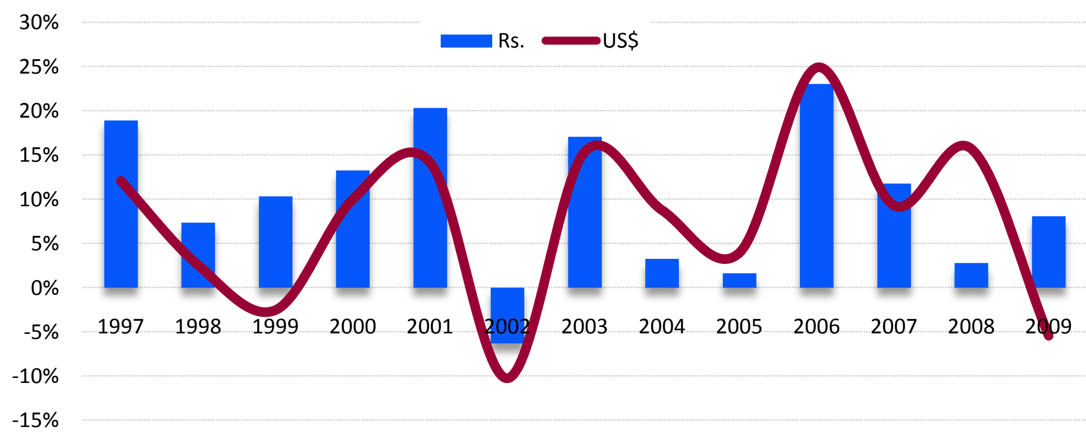
TRADE DEVELOPMENTS

India's Trade Data Indicate a Continued Export Slowdown in FY2010

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 H1FY2010 (April-September 2009), India's T&C exports declined 1.1% (yoy) in Rupee terms to Rs. 468 billion. Exports in US$ terms however declined 12.6% (yoy) to US$9.76 billion. Overall in rupee terms, product-wise export trends indicate a modest growth in export of readymade garments (RMG), accompanied by a decline in raw cotton, and cotton yarns/fabrics/made-up, attributable to a sharp decline in raw cotton exports to China. Export of synthetic fibres have also increased at a healthy rate, though growth has been moderated in US$ terms. Handicraft exports have increased substantially in both rupee and US$ terms.

India's Exports of T&C

	Rs. Million			US$ million		
H1FY	**2009**	**2010**	**Growth**	**2009**	**2010**	**Growth**
Readymade Garments	231,018	236,280	2.3%	5,423	4,863	-10.3%
Cotton, yarn, fabrics, made-ups etc	100,497	74,248	-26.1%	2,357	1,530	-35.1%
Manmade textiles & made-ups etc	78,616	91,743	16.7%	1,845	1,890	2.4%
Natural Silk textiles	8,828	6,919	-21.6%	206	142	-31.0%
Wool & woollen manufactures	2,336	2,122	-9.2%	55	44	-20.1%
Coir & coir manufactures	3,439	3,801	10.5%	81	78	-2.7%
Jute manufactures	7,921	5,346	-32.5%	185	110	-40.8%
Handicrafts	7,164	20,371	184.3%	167	419	150.9%
Carpets	18,613	14,729	-20.9%	438	419	-4.2%
Cotton Raw (incl. waste)	16,528	12,548	-24.1%	400	259	-35.3%
Total	**474,960**	**468,105**	**-1.4%**	**11,157**	**9,755**	**-12.6%**

Source: Textiles Commissioner, IMaCS Analysis

US IMPORTS

Second Consecutive Yearly Decline in Imports During 2009

The slowdown in US imports of T&C that developed from mid-2007 has developed into a decline during 2008 and 2009. After a decline of 3.3% in 2008, US imports of T&C declined 13.3% in 2009. Import levels in 2009 were the lowest since 2003. While US textile imports declined 17.2% to US$17.90 billion, apparel imports declined 11.8% to US$63.10 billion. The decline was sharp for India's exports, which declined 9.4% in 2009, compared with a decline of 0.5% in 2008. Among the major supplier 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 of 2.8% in 2009 primarily because of removal of safeguards.

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 declines in 2008 and 2009. 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.

US Imports of T&C

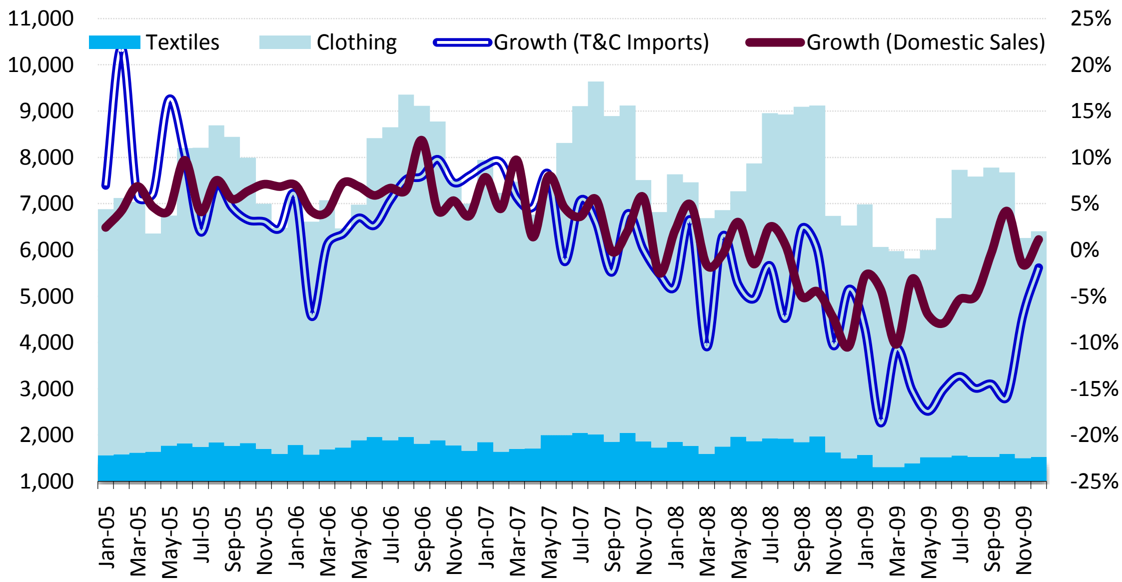
	Value (US$ million)		Growth		Share	
	2008	2009	2008	2009	2008	2009
TEXTILES	**21,619**	**17,897**	**-3.9%**	**-17.2%**	**100%**	**100%**
China	9,756	8,257	1.9%	-15.4%	45.1%	46.1%
India	2,005	1,754	3.7%	-12.5%	9.3%	9.8%
Pakistan	1,589	1,445	-5.0%	-9.1%	7.3%	8.1%
Canada	953	830	-23.2%	-12.9%	4.4%	4.6%
Mexico	943	751	-14.5%	-20.3%	4.4%	4.2%
Korea, South	614	525	-12.0%	-14.6%	2.8%	2.9%
Italy	705	430	-11.4%	-39.1%	3.3%	2.4%
Turkey	529	386	-10.0%	-27.0%	2.4%	2.2%
Taiwan	466	342	-7.5%	-26.7%	2.2%	1.9%
Japan	373	276	-4.6%	-25.9%	1.7%	1.5%
CLOTHING	**71,568**	**63,104**	**-3.2%**	**-11.8%**	**100%**	**100%**
China	22,923	23,503	0.8%	2.5%	32.0%	37.2%
Vietnam	5,223	5,068	19.8%	-3.0%	7.3%	8.0%
Indonesia	4,028	3,861	1.2%	-4.2%	5.6%	6.1%
Bangladesh	3,442	3,410	10.9%	-0.9%	4.8%	5.4%
Mexico	4,015	3,391	-11.2%	-15.5%	5.6%	5.4%
India	3,073	2,846	-3.0%	-7.4%	4.3%	4.5%
Honduras	2,604	2,032	3.7%	-22.0%	3.6%	3.2%
Cambodia	2,376	1,871	-2.0%	-21.3%	3.3%	3.0%
Pakistan	1,490	1,306	-0.6%	-12.3%	2.1%	2.1%
TOTAL	**93,187**	**81,002**	**-3.3%**	**-13.1%**	**100%**	**100%**
China	32,678	31,760	1.1%	-2.8%	35.1%	39.2%
Vietnam	5,425	5,332	19.0%	-1.7%	5.8%	6.6%
India	5,078	4,600	-0.5%	-9.4%	5.4%	5.7%
Mexico	4,957	4,142	-11.9%	-16.4%	5.3%	5.1%
Indonesia	4,241	4,021	0.8%	-5.2%	4.6%	5.0%
Bangladesh	3,537	3,521	10.8%	-0.5%	3.8%	4.3%
Pakistan	3,078	2,750	-2.9%	-10.7%	3.3%	3.4%
Honduras	2,612	2,039	3.7%	-21.9%	2.8%	2.5%
Cambodia	2,386	1,888	-2.0%	-20.9%	2.6%	2.3%
Thailand	1,979	1,451	-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. However, US imports declined at a lower rate of 9.2% (yoy) in 4Q2009, partially attributable to the base effect. The decline has been primarily because of a consistent decline in US retail sales of clothing and clothing accessories from September 2008. US retail sales of clothing and clothing accessories declined 2.3% during 2008 to US$216 billion, with declines from September 2008 onwards. The trends indicate decline in sales during 2009, with retail sales of clothing declining 3.4% in 2009 to US$153.32 billion.

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

US$ million, yoy growth



Source: OTEXA, US Census Bureau, IMaCS Analysis

Although US apparel imports continued to decline for the fourteenth successive month through December 2009, they have shown some signs of rebound in some categories. The share of MMF fibre products clearly rose, thanks to their lower prices which declined at a faster rate than cotton apparel prices. During 2009, apparel imports declined more in cotton categories (-11%) than in MMF categories (-8.7%), as US buyers shifted to cheaper polyester products. The removal of US quotas on imports from China did not limit the decline of imports in just liberalised categories.

US Imports by Categories

US$ million

	Value (US$ million)		Growth (%)					
	2008	2009	2008	2009	1Q09	2Q09	3Q09	4Q09
Apparel	**71,568**	**63,104**	**-3.2**	**-11.8**	**-10.5**	**-14.3**	**-13.1**	**-9.2**
Non Apparel	**21,619**	**17,897**	**-3.9**	**-17.2**	**-19.6**	**-20.5**	**-19.0**	**-9.2**
Yarns	1,322	1,083	-9.0	-18.0	-24.7	-21.3	-18.9	-5.5
Fabrics	5,120	3,886	-7.4	-24.1	-27.6	-30.4	-26.4	-10.0
Made ups/Misc	15,177	12,928	-2.1	-14.8	-16.2	-17.0	-16.5	-9.2
Cotton Products	**52,211**	**46,172**	**-2.8**	**-11.6**	**-11.7**	**-14.7**	**-12.1**	**-7.8**
Cotton Apparel	43,813	38,984	-2.7	-11.0	-10.6	-13.9	-11.8	-7.7
Cotton Non-Apparel	8,398	7,188	-3.3	-14.4	-17.2	-18.4	-13.8	-8.0
Wool Products	**5,371**	**3,887**	**-4.9**	**-27.6**	**-31.2**	**-31.6**	**-28.3**	**-21.3**
Wool Apparel	4,139	3,077	-2.8	-25.6	-28.6	-28.0	-27.3	-19.6
Wool Non-Apparel	1,233	810	-11.1	-34.3	-35.3	-39.3	-34.6	-27.3
MMF Products	**33,096**	**29,342**	**-3.4**	**-11.3**	**-10.7**	**-14.0**	**-12.8**	**-7.5**
MMF Apparel	21,591	19,711	-3.2	-8.7	-6.1	-11.0	-9.7	-7.6
MMF Non-Apparel	11,506	9,631	-3.8	-16.3	-18.6	-18.6	-19.8	-7.2
Silk and Apparel Products	**2,508**	**1,600**	**-9.7**	**-36.2**	**-10.5**	**-14.3**	**-13.1**	**-9.2**
Total	**93,187**	**81,002**	**-3.3**	**-13.1**	**-12.7**	**-15.9**	**-14.4**	**-9.2**

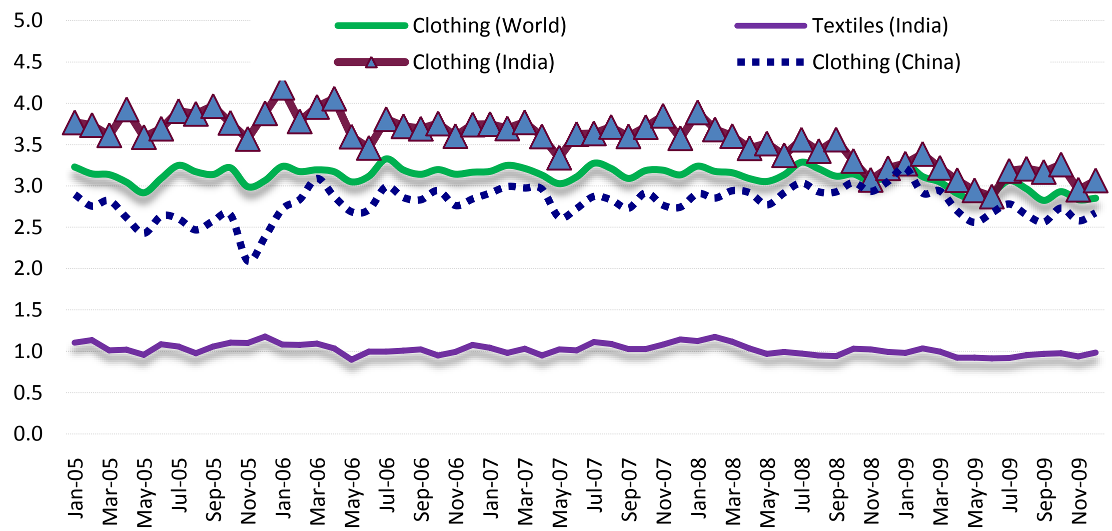
Source: OTEXA, IMaCS Analysis

Decline in US Unit Import Prices Caused by Lower Demand

Although unit prices of US textile and clothing imports remained stable in 2008, they have declined 6.1% in 2009, with apparel import prices declining 6.1% as a result of the recent sharp decline in retail sales. 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, 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, followed by an increase to US$3.09/m in 4Q2009. 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**

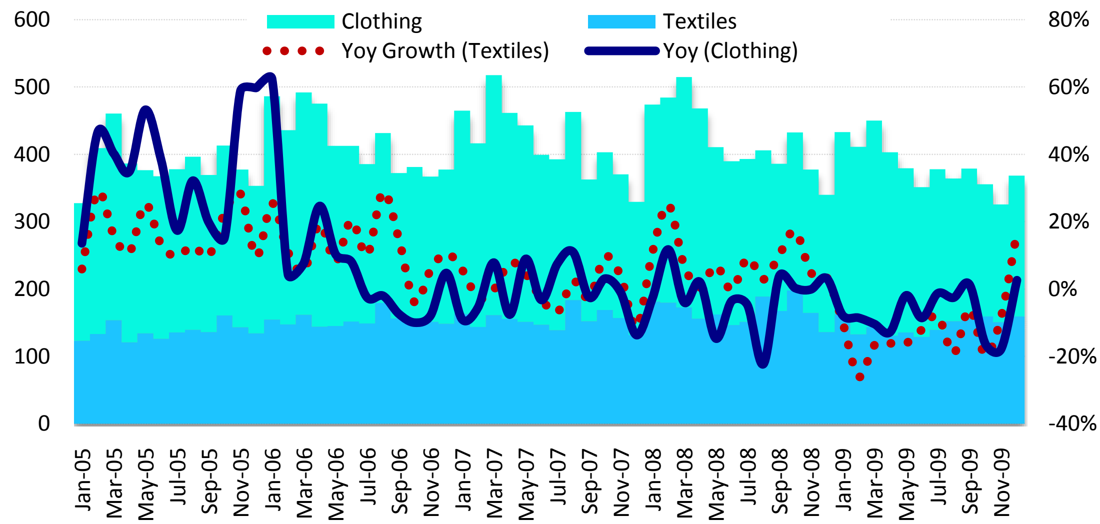
Source: OTEXA, IMaCS Analysis

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. During 2008, although the rupee depreciation made India's exports competitive, export growth slowed down, and then declined, especially for apparel. Apparel exports to the US has declined for four successive quarters with a decline of 10.9% (yoy) in 4Q2009. The decline has been partly driven by increased competition from Chinese suppliers. Textile exports have also declined for four successive quarters, though the rate of decline was lower at 5.9% (yoy) in 4Q2009. 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$3.07/m in December 2009. Textile export unit prices have also increased from US$0.92/m in 2Q2009 to US$0.99/m in December 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 8.4% in 2009. MMF apparels also declined 11% in 2008, but increased 7.2% in 2009, mainly because of higher exports of dresses and coats.

US Imports of T&C from India

	Value (US$ million)		Growth (%)					
	2008	2009	2008	2009	1Q09	2Q09	3Q09	4Q09
Apparel	**3,073**	**2,846**	**-3.0**	**-7.4**	**-9.0**	**-8.2**	**-0.9**	**-10.9**
Non Apparel	**2,005**	**1,754**	**3.7**	**-12.5**	**-17.6**	**-14.9**	**-11.4**	**-5.9**
Yarns	64	43	-7.5	-32.0	-37.4	-52.2	-22.6	-9.9
Fabrics	217	161	22.9	-25.6	-20.4	-28.2	-31.8	-20.5
Made ups/Misc	1,724	1,550	2.1	-10.1	-16.6	-11.2	-8.2	-4.0
Cotton Products	**4,021**	**3,715**	**1.0**	**-7.6**	**-10.9**	**-9.0**	**-2.9**	**-6.4**
Cotton Apparel	2,630	2,408	-2.0	-8.4	-9.9	-9.2	-1.3	-12.5
Cotton Non-Apparel	1,391	1,307	7.2	-6.0	-13.2	-8.3	-5.5	3.2
Wool Products	**429**	**317**	**-10.3**	**-26.0**	**-30.6**	**-32.7**	**-17.8**	**-23.4**
Wool Apparel	100	90	-6.7	-9.5	-24.9	-19.5	-0.2	-7.3
Wool Non-Apparel	329	227	-11.3	-31.0	-31.6	-34.9	-26.7	-30.1
MMF Products	**554**	**515**	**-1.9**	**-6.9**	**-1.9**	**-3.5**	**-9.9**	**-11.6**
MMF Apparel	293	314	-11.0	7.2	13.8	11.5	3.7	0.4
MMF Non-Apparel	260	201	10.9	-22.8	-20.8	-20.0	-26.2	-23.8
Silk and Apparel Products	**75**	**53**	**-8.1**	**-29.7**	**-35.3**	**-28.4**	**-27.5**	**-13.3**
Total	**5,078**	**4,600**	**-0.5**	**-9.4**	**-12.1**	**-10.6**	**-5.4**	**-8.7**
Major Items								
Babies' garments and clothing accessories	90	113	4.8	24.9	20.3	7.3	43.7	31.9
Cotton Dresses	150	179	-0.8	19.4	-3.6	24.4	109.5	31.7
Cotton M&B knit shirts	498	416	-9.7	-16.5	-18.2	-18.9	-10.3	-18.6
Cotton W&G knit shirts & blouses	341	312	3.8	-8.7	3.3	-2.3	-8.7	-29.4
Cotton M&B shirts, not knit	213	175	-3.8	-17.8	-15.4	-22.1	-16.7	-17.2
Cotton W&G shirts & blouses, not knit	295	295	-10.7	0.1	-18.6	-9.2	35.7	26.9
Cotton Skirts	81	101	-32.0	24.3	1.0	53.3	24.4	29.2
Cotton M&B trousers, breeches & shorts	222	154	-6.4	-30.7	-26.1	-42.5	-25.8	-23.1
Cotton W&G trousers, breeches & shorts	283	243	10.1	-13.9	-21.8	-22.1	-0.6	1.6
Cotton Underwear	231	216	42.5	-6.4	22.1	8.8	-7.7	-32.5
Cotton Pillowcases	86	87	25.1	0.7	-21.9	4.9	11.0	14.1
Cotton Sheets	311	313	17.6	0.5	-18.6	0.5	5.0	17.1
Cotton Terry & other pile towels	373	363	3.7	-2.6	-7.9	-6.2	5.4	-0.6
Other cotton manufactures	426	403	0.5	-5.4	-4.6	-3.3	-11.6	-0.8
Wool Floor coverings	316	217	-11.7	-31.5	-32.8	-34.8	-26.3	-31.0

Source: OTEXA, IMaCS Analysis

M&B: men’s and boys; W&G: women & girls

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 3Q2009 declining for the seventh 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.

EU Imports of T&C

	Euro Million			Growth		Share	
	2008	2008 (10M)	2009 (10M)	2008	2009 (10M)	2008	10M 2009
TEXTILES	**55,488**	**47,540**	**37,283**	**-7.5%**	**-21.6%**	**100%**	**100%**
EU Extra	**19,049**	**16,137**	**13,577**	**-4.9%**	**-15.9%**	**34.3%**	**36.4%**
China	5,686	4,811	4,258	4.5%	-11.5%	10.2%	11.4%
India	2,139	1,806	1,482	-7.7%	-17.9%	3.9%	4.0%
Pakistan	1,468	1,217	1,101	-4.6%	-9.5%	2.6%	3.0%
Turkey	3,337	2,822	2,340	-10.3%	-17.1%	6.0%	6.3%
US	874	743	600	-6.2%	-19.3%	1.6%	1.6%
EU Intra	**36,440**	**31,404**	**23,706**	**-8.8%**	**-24.5%**	**65.7%**	**63.6%**
Belgium	3,948	3,406	2,622	-9.0%	-23.0%	7.1%	7.0%
France	2,863	2,486	1,776	-11.9%	-28.6%	5.2%	4.8%
Germany	7,788	6,734	5,096	-7.5%	-24.3%	14.0%	13.7%
Italy	6,438	5,503	3,997	-11.9%	-27.4%	11.6%	10.7%
Netherlands	2,744	2,370	1,883	-6.6%	-20.6%	4.9%	5.0%
UK	1,854	1,608	1,200	-11.9%	-25.4%	3.3%	3.2%
CLOTHING	**115,951**	**98,307**	**92,578**	**2.1%**	**-5.8%**	**100%**	**100%**
EU Extra	**63,505**	**53,446**	**52,314**	**2.7%**	**-2.1%**	**54.8%**	**56.5%**
Bangladesh	4,745	3,984	4,476	7.6%	12.4%	4.1%	4.8%
China	27,202	22,707	23,589	14.8%	3.9%	23.5%	25.5%
India	4,332	3,752	3,962	3.5%	5.6%	3.7%	4.3%
Morocco	2,416	2,036	1,699	-5.8%	-16.6%	2.1%	1.8%
Tunisia	2,613	2,182	1,883	0.5%	-13.7%	2.3%	2.0%
Turkey	8,065	6,854	5,968	-11.1%	-12.9%	7.0%	6.4%
Vietnam	1,312	1,097	1,082	10.5%	-1.3%	1.1%	1.2%
EU Intra	**52,446**	**44,861**	**40,264**	**1.4%**	**-10.2%**	**45.2%**	**43.5%**
Belgium	5,249	4,490	3,998	5.3%	-11.0%	4.5%	4.3%
France	5,077	4,335	3,664	5.9%	-15.5%	4.4%	4.0%
Germany	8,865	7,695	7,522	5.9%	-2.2%	7.6%	8.1%
Italy	7,924	6,764	5,738	0.7%	-15.2%	6.8%	6.2%
Netherlands	4,036	3,483	3,238	0.8%	-7.0%	3.5%	3.5%
Spain	3,274	2,727	2,833	11.4%	3.9%	2.8%	3.1%
UK	2,810	2,373	2,127	0.3%	-10.4%	2.4%	2.3%
TOTAL	**171,439**	**145,848**	**129,861**	**-1.2%**	**-11.0%**	**100%**	**100%**
EU Extra	**82,554**	**69,583**	**65,891**	**0.9%**	**-5.3%**	**48.2%**	**50.7%**
Bangladesh	5,010	4,200	4,675	7.4%	11.3%	2.9%	3.6%
China	32,888	27,519	27,846	12.9%	1.2%	19.2%	21.4%

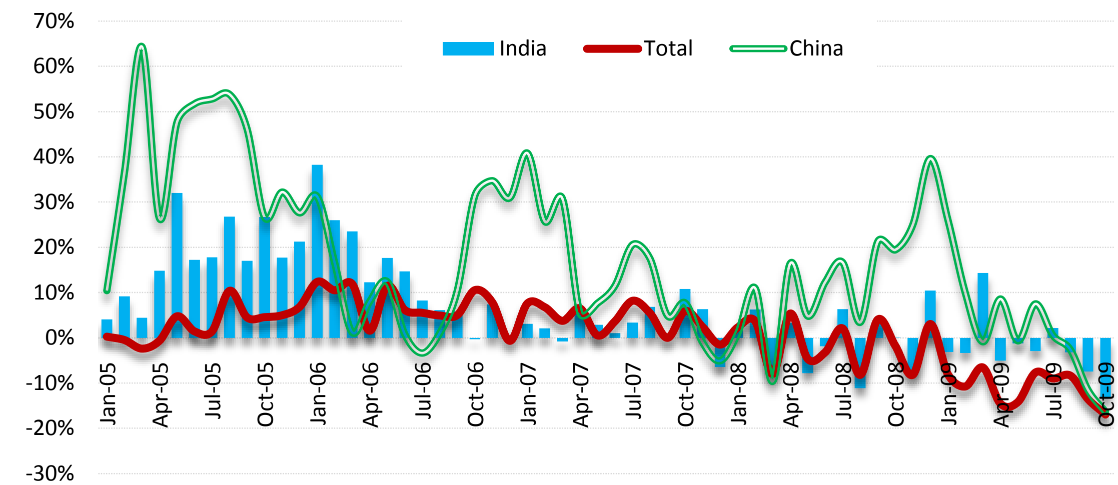
India	6,472	5,558	5,444	-0.5%	-2.0%	3.8%	4.2%
Pakistan	2,619	2,187	2,061	-2.0%	-5.8%	1.5%	1.6%
Tunisia	2,871	2,399	2,080	-0.1%	-13.3%	1.7%	1.6%
Turkey	11,402	9,676	8,308	-10.9%	-14.1%	6.7%	6.4%
EU Intra	**88,885**	**76,265**	**63,970**	**-3.1%**	**-16.1%**	**51.8%**	**49.3%**
Belgium	9,197	7,896	6,620	-1.4%	-16.2%	5.4%	5.1%
France	7,941	6,822	5,440	-1.3%	-20.3%	4.6%	4.2%
Germany	16,653	14,429	12,619	-0.8%	-12.5%	9.7%	9.7%
Italy	14,363	12,268	9,735	-5.4%	-20.6%	8.4%	7.5%
Netherlands	6,781	5,853	5,120	-2.3%	-12.5%	4.0%	3.9%
Spain	4,878	4,106	3,874	1.7%	-5.7%	2.8%	3.0%
UK	4,665	3,981	3,327	-5.0%	-16.4%	2.7%	2.6%

Source: Eurostat, IMaCS Analysis

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



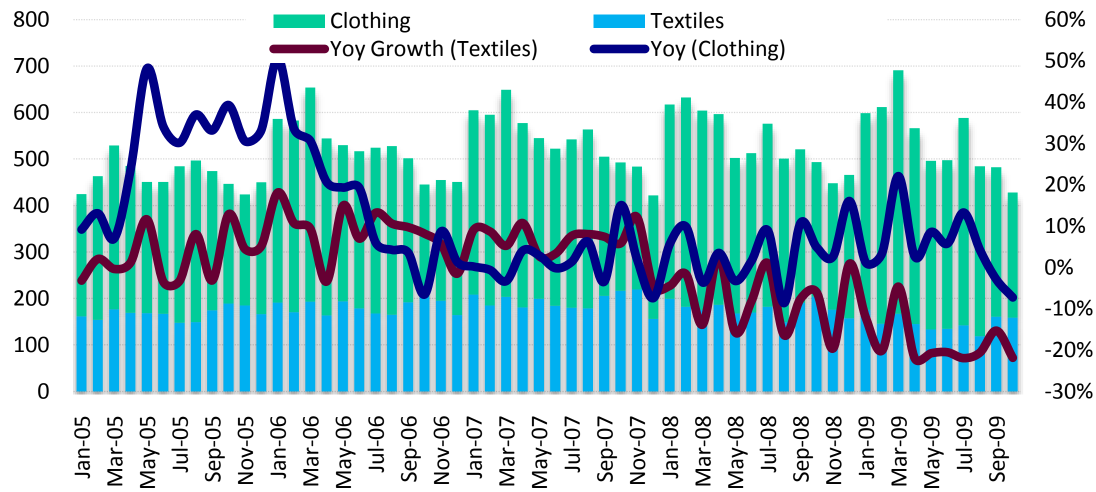
Source: Eurostat, IMaCS Analysis

Although EU-27 imports have declined in 2009, shipments to the UK and Spain have shown signs of recovery in volume terms, because of a decline in unit prices. However, German imports in value terms did not decline due to higher unit prices.

During 10M2009, while India's exports of textiles to EU declined 17.9% (yoy) to Euro 1,482 million, clothing exports increased 5.6% (yoy) to Euro 3,962 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 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.

EU Monthly Imports of T&C from India

Euro million, yoy growth



Source: Eurostat, IMaCS Analysis

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	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09
TOTAL	**4.4**	**2.5**	**-0.7**	**-0.9**	**-0.7**	**-2.6**	**-8.5**	**-12.1**	**-10.4**
EU-27 EXTRA	**5.7**	**2.2**	**-0.6**	**0.2**	**0.4**	**3.7**	**-0.3**	**-4.6**	**-7.4**
Bangladesh	-3.7	-7.2	3.2	4.4	1.9	23.1	21.1	15.5	6.4
China	14.0	1.0	1.2	11.0	13.4	27.0	13.1	5.3	-4.6
India	3.7	3.5	0.3	-2.0	-0.7	0.6	2.5	-3.2	-2.7
Indonesia	-8.6	-8.5	-3.4	-4.7	-12.7	-9.6	-1.8	-6.4	-6.1
Morocco	10.6	8.7	1.6	-1.0	-6.2	-15.5	-14.5	-17.2	-20.9
Pakistan	3.8	7.6	-8.8	-0.7	1.3	0.6	3.2	-9.0	-7.5
Sri Lanka	13.2	1.7	12.1	0.0	-3.1	20.6	13.9	10.0	6.0
Switzerland	6.6	8.1	-5.3	2.1	-2.0	-11.7	-16.5	-21.7	-17.5
Tunisia	3.4	1.1	1.4	0.5	0.9	-3.4	-14.1	-16.0	-13.2
Turkey	6.1	5.3	-5.1	-10.9	-11.7	-16.2	-15.9	-15.5	-12.9
US	-2.5	-8.4	-8.3	-2.5	-1.6	-0.3	-4.3	-17.9	-20.0
Vietnam	13.7	11.1	9.5	7.8	6.4	10.6	3.1	2.4	-2.7
EU-27 INTRA	**3.2**	**2.8**	**-0.8**	**-1.8**	**-1.8**	**-7.9**	**-15.7**	**-18.5**	**-13.4**
Austria	4.1	2.3	2.8	1.1	-3.0	-10.1	-22.0	-22.3	-19.1
Belgium	4.7	3.5	0.2	-0.3	3.3	-8.8	-12.3	-16.1	-19.1
France	7.1	3.4	-1.9	-8.1	-4.3	9.4	-16.7	-16.6	-15.0
Germany	5.1	5.9	1.6	3.8	-0.2	-8.6	-12.9	-17.8	-7.5
Italy	0.4	1.5	0.5	-4.2	-5.3	-12.6	-20.9	-24.1	-17.3
Netherlands	5.5	3.0	1.9	0.0	-2.5	-9.0	-12.7	-17.5	-9.1
Poland	13.4	19.7	20.3	27.2	18.8	-0.2	-6.2	-11.3	-2.9
Portugal	1.5	7.5	0.4	-6.2	-7.3	-13.3	-22.1	-18.9	-9.4
Spain	8.9	10.1	1.8	2.1	4.4	-1.4	-6.3	-5.0	-6.6
UK	8.4	4.7	-3.8	-4.8	-1.7	-9.7	-17.9	-16.4	-14.1

Source: Eurostat, IMaCS Analysis

During 4Q2008 and 10M2009, 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 8.3% (yoy) in 10M2009.

Category-wise EU Imports of T&C from India

	Value (Euro Million)		Growth			
	10M 2008	10M 2009	2008	2009 (10M)	2Q09	3Q09
Textiles	**1,806**	**1,482**	**-7.7**	**-17.9**	**-21.1**	**-19.1**
Yarn	406	291	-14.5	-28.4	-34.4	-26.3
Cotton fabrics, woven	110	86	-13.0	-22.0	-22.0	-26.5
Manmade fabrics, woven	73	57	4.1	-21.2	-28.3	-19.7
Other fabrics, woven	106	73	-5.2	-31.0	-34.3	-29.1
Knitted or crocheted fabrics	6	5	-35.9	-22.0	-33.8	21.0
Tulles, lace, embroidery, etc	55	44	2.2	-20.6	-23.9	-16.7
Special yarns, fabrics, and related	35	29	12.3	-17.5	-27.0	-4.9
Made-ups	648	594	-5.3	-8.3	-9.3	-12.0
Floor Coverings	367	303	-7.3	-17.2	-18.4	-22.8
Clothing	**3,752**	**3,962**	**3.5**	**5.6**	**5.4**	**5.3**
Non-Knit (M/B)	464	453	2.4	-2.4	-0.1	-4.0
Non-Knit (W/G)	1,034	1,179	1.6	14.0	11.7	16.3
Knit (M/B)	251	256	5.2	1.7	0.4	7.7
Knit (W/G)	413	451	9.1	9.1	9.8	12.2
Other apparels	1,043	1,039	-4.3	-0.4	1.1	0.5
Clothing accessories	180	218	24.3	21.0	15.4	17.4
Others, headgear	366	367	20.4	0.2	-6.7	-5.8
Total	**5,558**	**5,444**	**-0.5**	**-2.0**	**-3.2**	**-2.7**

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 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 20.7% in October 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 25.4% in October 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 3.4% in October 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 modest 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 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	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09
EU-27 EXTRA	**42.7**	**46.4**	**46.3**	**47.0**	**46.0**	**50.2**	**49.2**	**51.2**	**49.9**
China	10.6	16.2	16.0	17.2	15.7	22.6	20.8	21.2	18.8
Turkey	7.5	7.2	7.4	7.0	7.1	6.1	6.4	6.4	6.8
India	3.0	3.3	3.3	4.1	4.1	3.4	3.4	4.6	4.5
Bangladesh	2.5	2.6	2.4	2.7	2.9	3.0	3.0	3.6	3.8
Tunisia	1.9	1.7	1.6	1.8	1.9	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	1.5	1.6	1.4	1.4	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	0.9	1.0	0.9	0.9	0.9	0.9
Sri Lanka	0.6	0.7	0.7	0.7	0.7	0.6	0.8	0.8	0.9
EU-27 INTRA	**57.3**	**53.6**	**53.7**	**53.0**	**54.0**	**49.8**	**50.8**	**48.8**	**50.1**
Germany	10.2	9.3	9.7	10.2	10.3	9.4	9.1	9.7	9.6
Italy	10.0	9.1	9.0	8.7	8.9	7.9	8.1	7.5	7.7
Belgium	5.7	5.5	5.6	5.3	5.4	5.4	5.2	5.1	5.2
France	4.8	4.5	4.6	4.7	4.5	4.2	5.1	4.3	4.3
Netherlands	4.0	3.9	3.9	4.2	3.9	4.0	3.6	4.0	3.7
Spain	2.8	2.8	3.0	2.8	2.8	2.8	3.0	2.9	3.0
UK	3.1	2.9	3.0	2.7	2.8	2.7	2.7	2.4	2.7
Poland	1.3	1.3	1.5	1.6	1.7	1.5	1.5	1.7	1.7
Portugal	2.2	1.8	1.9	1.9	1.9	1.5	1.7	1.6	1.7

Source: Eurostat, IMaCS Analysis

POLICY DEVELOPMENTS

Acquisition of Machinery & Plant (Capital Subsidy) under Jute Technology Mission

In January 2010, the Cabinet Committee on Economic Affairs (CCEA) approved a proposal of the Ministry of Textiles (MoT) to raise the cap on the subsidy prescribed in the scheme component Acquisition of Plant & Machinery (Capital Subsidy) under Jute Technology Mission. The cap on subsidy under the scheme has now been enhanced to Rs. 35 million per mill in respect of existing mills in general states and to Rs. 40 million per mill in respect of new mills and existing mills in the North East. This is expected to provide the much needed thrust and incentive to the jute industry to invest in modernisation on a significant scale.

The Jute Technology Mission was launched by the Government for the holistic development of the jute sector and is being implemented during the XI Five Year Plan. Under this scheme there is an outlay of Rs. 800 million which is to be provided as capital subsidy @20% of the cost of identified machinery and plant. This component aims at enhancement of productivity in the jute industry by technological upgradation of existing machinery to suit modern production practices. Under this scheme the ceiling on subsidy was Rs. 7.5 million per unit for existing units which could be enhanced to Rs. 10 million for new mills and for units in North East. This cap on the subsidy resulted in poor off-take under the scheme thereby defeating the very purpose of the scheme which was modernisation and technological upgradation of jute industry. The jute industry also had been claiming that the cap on subsidy was not sufficient to bridge the viability gap for making the investment.

Stimulus Packages Reported to Have Prevented Decline of Handicrafts

The MoT has noted that the two stimulus packages announced by the Government in December 2008 and January 2009 for providing relief to the exporters, have helped preventing the decline in exports of Handicrafts. As per latest exports data, handicrafts exports grew 11% (yoy) in January 2010. The stimulus packages through enabling policy support include: (i) inclusion of all handicrafts items under Vishesh Krishi and Gramaudyog Yojana with incentive of 5% Duty Credit Scrip on FOB value of exports, (ii) an interest subvention (i.e., discount) of 2% on Pre-and Post Shipment Export Credit for five labour intensive sectors including handicrafts, (iii) additional funds for exports incentive schemes and (iv) Government back up guarantee for exports through Export Credit Guarantee Cover of Rs. 3.5 billion. In addition to the above incentives, all Handicraft items have been included as Special Focus Products in the Foreign Trade Policy 2009-14 and Jaipur, Srinagar and Anantnag have been given the status of Towns of Exports Excellence to boost Handicrafts exports from these handicraft clusters.

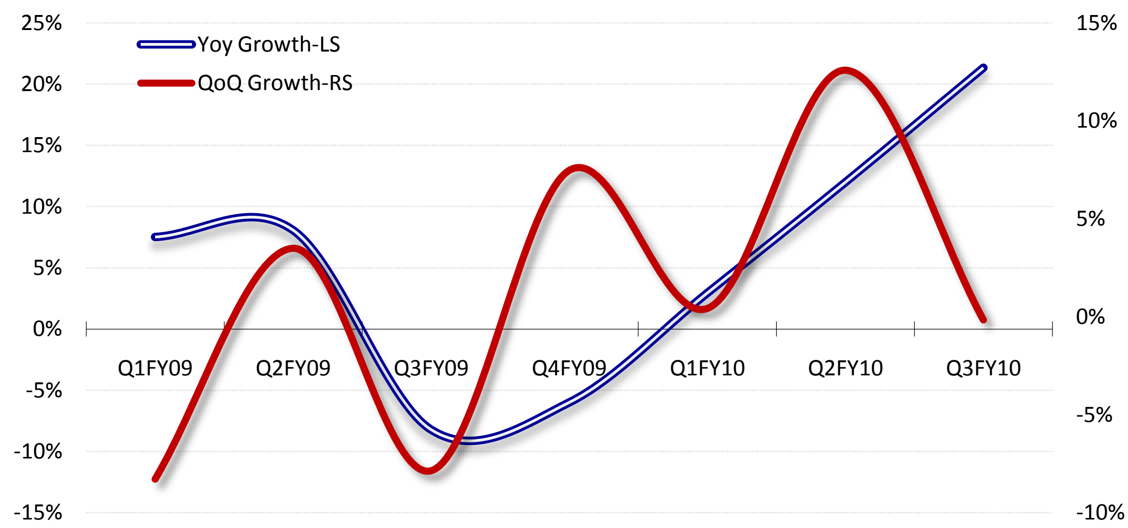
REVIEW OF FINANCIAL PERFORMANCE

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 FY2010, attributable to initially a decline in input costs, but subsequently to demand recovery.

Southern Region

During Q3FY2010, **listed companies with registered offices in the Southern Region** reported a 21% (yoy) increase in operating income (OI) to Rs. 22.62 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 till Q2FY2009 transformed into a sharp decline in OI (yoy) in the subsequent two quarters of FY2009. However, OI increased at a slow rate of 3% (yoy) in Q1FY2010, followed by substantially higher growth of 12% (yoy) in Q2FY2010, and 21% (yoy) in Q3FY2010. On a qoq basis however, OI growth had been positive for three quarters till Q2FY2010, but remained stagnant in Q3FY2010. OI on a (qoq) basis increased 13% in Q2FY2010, but remained stagnant in Q3FY2010.

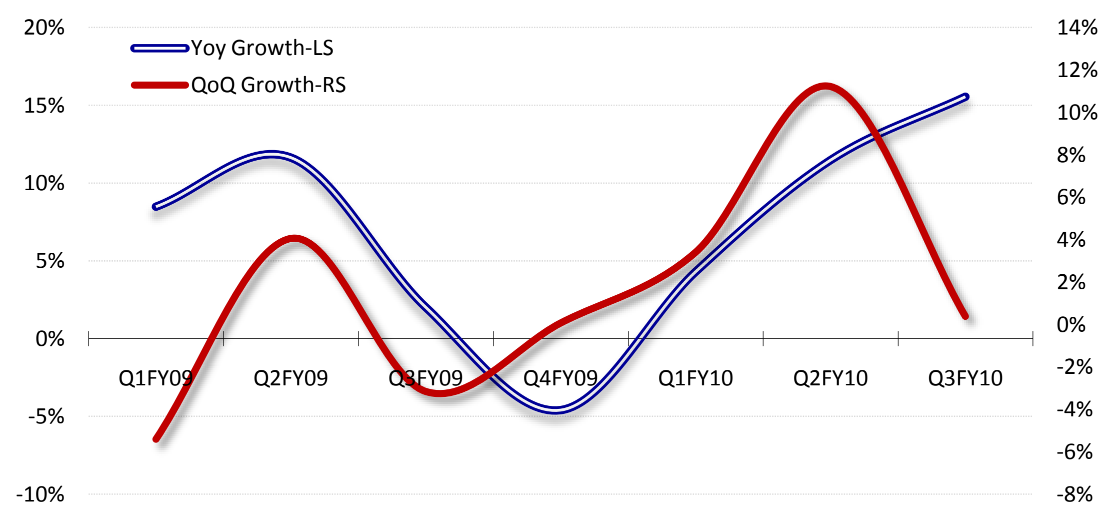
Trends in Operating Income Growth—Southern Region



Source: Compiled by IMaCS

Although OI increased 21% (yoy) in Q3FY2010, raw material costs increased 15.6% (yoy) in Q3FY2010 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

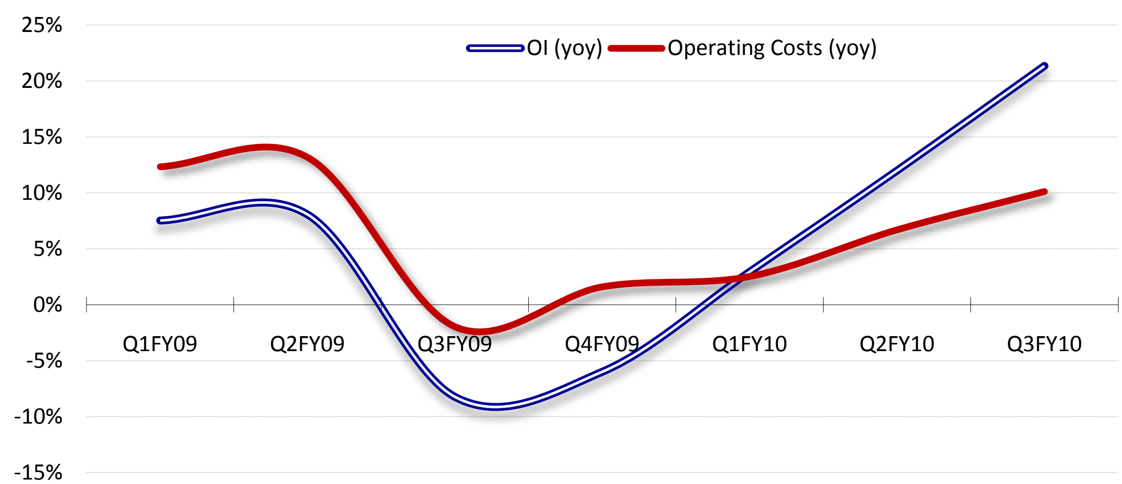


Source: Compiled by IMaCS

Although raw material costs have increased at a high rate in recent quarters, their rate of increase has been lower than (yoy) growth in OI. In addition, other costs have declined mainly because of decline in selling costs. However, employee costs have remained stagnant and even increased attributable to stickiness of employee costs in the short term.

Thus, the lower increase in raw material costs has been accompanied by a decline in other costs resulting in overall operating costs increasing 10.1% (yoy) in Q3FY2010. In fact, the (yoy) rate of increase in operating costs has been lower than the (yoy) rate of increase in OI during Q1FY2010 to Q3FY2010.

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	Q3
Net Sales/OI	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Raw Material Cost	60.9	61.2	64.3	59.9	61.7	60.9	61.2
Employee Costs	7.8	7.8	8.3	8.2	8.0	7.5	7.7
Power & Fuel Costs	5.3	5.1	6.2	4.6	5.1	4.4	5.6
Other Operating Costs	17.9	19.6	18.8	27.4	16.8	16.4	14.2
Cost of Sales	**91.8**	**93.7**	**97.7**	**100.2**	**91.5**	**89.3**	**88.6**
OPBDIT	**8.2**	**6.3**	**2.3**	**-0.2**	**8.5**	**10.7**	**11.4**
Interest	5.9	6.0	7.5	6.9	6.5	5.6	5.5
Depreciation	6.4	6.2	6.6	5.6	6.3	5.8	5.8
OPBT	**-4.1**	**-6.0**	**-11.8**	**-12.7**	**-4.3**	**-0.6**	**0.1**
Other Income	1.7	0.2	0.9	2.1	1.1	1.4	0.8
PBT	**-2.4**	**-5.7**	**-10.8**	**-10.6**	**-3.2**	**0.8**	**0.8**
Tax	0.4	-0.5	-0.1	-1.2	0.7	1.0	1.0
PAT	**-2.8**	**-5.3**	**-10.8**	**-9.4**	**-3.8**	**-0.2**	**-0.1**

Source: Compiled by IMaCS

Financial Performance—Southern Region

Rs. Million

	FY2009				FY2010		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net Sales/OI	**19,544**	**20,228**	**18,641**	**20,035**	**20,121**	**22,654**	**22,620**
Raw Material Cost	11,894	12,377	11,987	11,996	12,406	13,799	13,853
Employee Costs	1,517	1,581	1,550	1,648	1,604	1,710	1,734
Power & Fuel Costs	1,039	1,038	1,162	927	1,017	991	1,261
Other Operating Costs	3,499	3,956	3,509	5,496	3,376	3,722	3,202
Cost of Sales	**17,948**	**18,952**	**18,207**	**20,068**	**18,403**	**20,221**	**20,050**
OPBDIT	**1,596**	**1,276**	**433**	**-33**	**1,719**	**2,433**	**2,569**
Interest	1,160	1,224	1,398	1,377	1,306	1,259	1,243
Depreciation	1,242	1,259	1,232	1,131	1,273	1,310	1,311
OPBT	**-806**	**-1,206**	**-2,197**	**-2,540**	**-860**	**-135**	**16**
Other Income	331	46	176	415	224	317	174
PBT	**-475**	**-1,161**	**-2,022**	**-2,125**	**-636**	**182**	**190**
Tax	80	-97	-10	-243	133	224	222
PAT	**-555**	**-1,063**	**-2,012**	**-1,882**	**-769**	**-43**	**-32**

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. 2.43 billion in Q2FY2010, and Rs. 2.57 billion in Q3FY2010 attributable primarily due to accelerating sales growth and decline in selling and administrative costs.

Yoy Growth in Income and Profitability—Southern Region

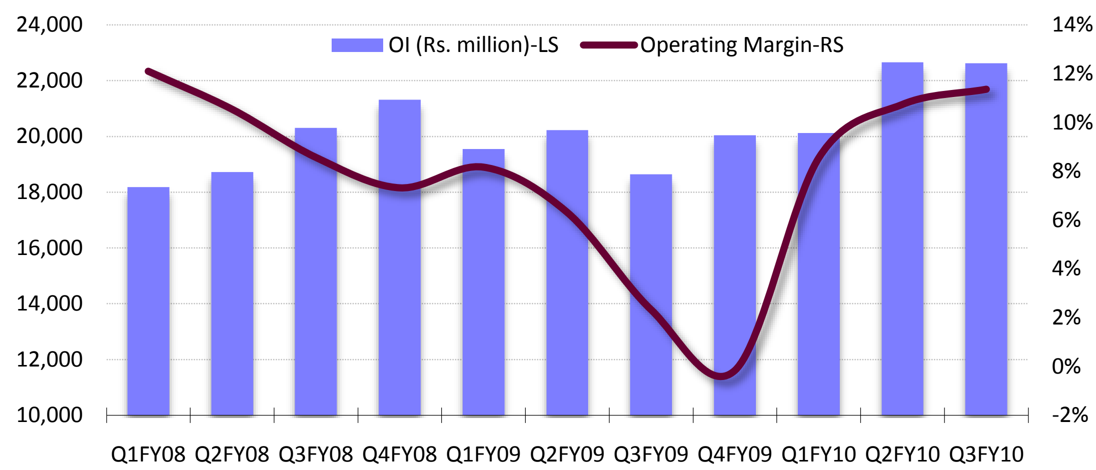
Percent

	FY2009				FY2010		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net Sales/OI	**7.5%**	**8.1%**	**-8.2%**	**-6.0%**	**3.0%**	**12.0%**	**21.3%**
Raw Material Cost	8.5%	11.7%	2.0%	-4.6%	4.3%	11.5%	15.6%
Employee Costs	7.7%	6.4%	0.8%	1.0%	5.7%	8.2%	11.9%
Power & Fuel Costs	-9.4%	10.5%	7.7%	-13.9%	-2.1%	-4.5%	8.6%
Other Operating Costs	42.1%	22.3%	-16.6%	23.0%	-3.5%	-5.9%	-8.8%
Cost of Sales	**12.3%**	**13.2%**	**-2.0%**	**1.6%**	**2.5%**	**6.7%**	**10.1%**
OPBDIT	**-27.4%**	**-35.3%**	**-75.1%**	**NM**	**7.7%**	**90.6%**	**493.3%**
Interest	18.7%	34.7%	31.8%	21.0%	12.6%	2.9%	-11.1%
Depreciation	15.4%	13.1%	3.1%	-3.5%	2.4%	4.0%	6.4%
OPBT	**NM**	**NM**	**NM**	**NM**	**NM**	**NM**	**NM**
Other Income	-84.0%	-93.9%	-84.2%	-17.8%	-32.3%	591.1%	-1.3%
PBT	**NM**	**NM**	**NM**	**NM**	**NM**	**NM**	**NM**
Tax	-57.9%	NM	NM	NM	66.9%	NM	NM
PAT	**NM**	**NM**	**NM**	**NM**	**NM**	**NM**	**NM**

Source: Compiled by IMaCS, NM: not meaningful

While operating margins have increased in each quarter of Q3FY2010, 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 7.5% in Q3FY2009 to 5.5% 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 till Q1FY2010. However, following six successive quarters of pre-tax losses, the industry reported pre-tax profits in Q2FY2010 and Q3FY2010. Further, although the industry has reported eight successive quarters of net losses, they have declined substantially from Rs. 2,012 million in Q3FY2009 to Rs. 32 million in Q3FY2010.

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



Source: Compiled by IMaCS

India

During Q3FY2010, although higher volumes resulted in an 18.4% (yoy) increase in OI, lower increase in input and other operating costs resulted in a 133% (yoy) increase in operating profits of a sample of listed Indian companies in the textile industry. OI (yoy) growth declined from 13% in Q2FY2009 to -3% in Q4FY2009, followed by acceleration in the rate of increase through successive quarters of FY2010.

Yoy Growth in Income and Profitability—India

Percent

	FY2009				FY2010		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net Sales/OI	**17.2%**	**12.7%**	**0.7%**	**-2.7%**	**5.6%**	**11.2%**	**18.4%**
Raw Material Cost	18.5%	13.4%	-4.1%	-7.7%	-0.2%	7.5%	18.4%
Employee Costs	9.8%	7.3%	-2.0%	6.8%	5.8%	7.8%	14.0%
Power & Fuel Costs	12.5%	20.2%	3.9%	-6.1%	1.4%	-1.7%	12.9%
Other Operating Costs	32.2%	38.3%	48.8%	7.2%	2.0%	-3.0%	-10.0%
Cost of Sales	**20.0%**	**17.4%**	**4.9%**	**-3.4%**	**0.7%**	**5.0%**	**11.4%**
OPBDIT	**-6.3%**	**-23.9%**	**-39.4%**	**6.4%**	**59.1%**	**86.3%**	**133.0%**
Interest	38.0%	55.1%	57.5%	32.8%	15.4%	0.8%	-13.6%
Depreciation	14.7%	15.4%	11.7%	7.6%	10.2%	6.4%	7.0%
OPBT	**NM**	**NM**	**NM**	**NM**	**NM**	**NM**	**NM**
Other Income	-46.4%	-27.8%	-64.4%	37.1%	-1.0%	-24.5%	2.0%
PBT	**-90.9%**	**NM**	**NM**	**NM**	**888.3%**	**NM**	**NM**
Tax	-45.7%	-75.5%	-68.5%	-33.8%	183.1%	443.8%	369.6%
PAT	**NM**	**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, 86% (yoy) in Q2FY2010, and 133% (yoy) in Q3FY2010 mainly because of a lower increase in costs and recovery in sales. Operating margins declined from 11.2% in Q2FY2008 to a low of 5.8% in Q3FY2009, but have recovered to 12.7% in Q2FY2010, attributable to a lower increase in operating costs. However, operating margins declined to 11.4% in Q3FY2010 mainly because of higher increase in input 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	Q3
Net Sales/OI	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Raw Material Cost	63.7	64.0	62.4	59.3	60.2	61.9	62.4
Employee Costs	6.2	6.2	6.3	6.5	6.2	6.0	6.1
Power & Fuel Costs	3.9	4.1	3.9	3.4	3.7	3.7	3.7
Other Operating Costs	17.8	18.1	21.6	22.9	17.2	15.8	16.4
Cost of Sales	**91.5**	**92.4**	**94.2**	**92.2**	**87.2**	**87.3**	**88.6**
OPBDIT	**8.5**	**7.6**	**5.8**	**7.8**	**12.8**	**12.7**	**11.4**
Interest	4.9	5.3	6.3	5.9	5.4	4.8	4.6
Depreciation	5.0	5.1	5.5	5.2	5.2	4.9	4.9
OPBT	**-1.4**	**-2.9**	**-6.0**	**-3.2**	**2.2**	**3.0**	**1.8**
Other Income	1.9	1.6	1.1	2.9	1.7	1.1	0.9
PBT	**0.4**	**-1.3**	**-4.9**	**-0.3**	**3.9**	**4.0**	**2.7**
Tax	0.6	0.3	0.3	0.4	1.6	1.6	1.3
PAT	**-0.2**	**-1.6**	**-5.3**	**-0.7**	**2.3**	**2.4**	**1.4**

Source: Compiled by IMaCS

Financial Performance—India

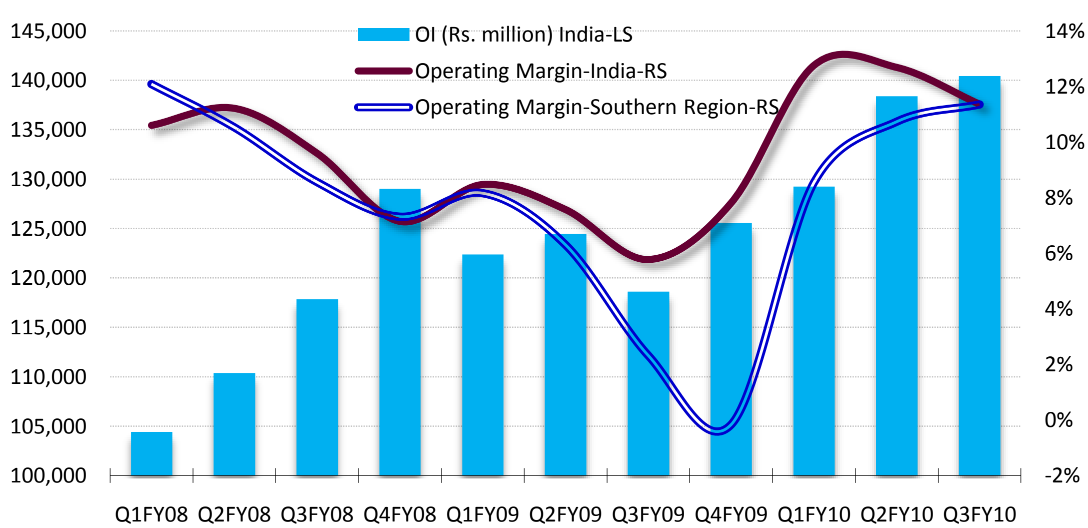
Rs. Million

	FY2009				FY2010		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net Sales/OI	**122,357**	**124,448**	**118,600**	**125,547**	**129,254**	**138,373**	**140,430**
Raw Material Cost	77,955	79,629	73,957	74,445	77,786	85,585	87,583
Employee Costs	7,532	7,727	7,512	8,177	7,969	8,332	8,562
Power & Fuel Costs	4,725	5,156	4,639	4,321	4,790	5,070	5,239
Other Operating Costs	21,781	22,516	25,647	28,796	22,214	21,834	23,093
Cost of Sales	**111,992**	**115,029**	**111,754**	**115,739**	**112,758**	**120,821**	**124,478**
OPBDIT	**10,365**	**9,420**	**6,846**	**9,808**	**16,495**	**17,552**	**15,952**
Interest	5,995	6,645	7,470	7,355	6,919	6,698	6,452
Depreciation	6,140	6,336	6,482	6,486	6,765	6,742	6,934
OPBT	**-1,769**	**-3,561**	**-7,106**	**-4,032**	**2,812**	**4,111**	**2,566**
Other Income	2,283	1,945	1,254	3,682	2,260	1,469	1,279
PBT	**513**	**-1,616**	**-5,853**	**-350**	**5,071**	**5,579**	**3,844**
Tax	739	409	398	560	2,091	2,226	1,870
PAT	**-226**	**-2,026**	**-6,251**	**-910**	**2,980**	**3,354**	**1,974**

Source: Compiled by IMaCS

As can be seen from the table above, operating profits declined sharply in Q3FY2009. However, they have recovered strongly from Q4FY2009. Operating profits declined in Q3FY2010 on a (qoq) basis mainly because of recent increase in input costs. Interest and depreciation costs have decline in recent months, resulting in an increase in net profits. The combined sample reported net profit of Rs. 3.35 billion in Q2FY2010 and Rs. 1.97 billion in Q3FY2010, compared with net losses of Rs. 6.25 billion in Q3FY2009. 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.