

Cloth

Industry Code (as per CMIE Prowess): 0101011505000000'

June 2022

Overall Industry Risk Score: 13/20 Marginally Favourable

Sample Size: 30 Companies

Median Rating Value of sample size: BBB

Individual Parameters Contributing to the Score

Demand & Supply Balance  **12/20**

DS Equilibrium

The industry witnessed a significant impact of pandemic on both domestic and export demand particularly during the first wave. The industry reported a strong 34.4% y-o-y growth in sales revenue for the quarter ended December 2021. Export demand has picked up, as per data from investindia.gov, the exports of textiles and apparel amounted to US\$ 30,449.85 million in December 2021, posting an increase of 52% over the same period during 2020. As per IBEF data, the industry witnessed a spurt in investment as it attracted FDI worth US\$ 3.93 billion from April 2000- December 2021. A sustainable recovery can be expected from Q1FY23 in the export markets due to unwinding of logistical restrictions.

Extent of Competition  **8/20**

Fragmented Industry

This industry is highly fragmented and the level of competition is high, both in the domestic and export market. As per a Niti Aayog report, around 95% of the weaving segment is in unorganised segment. This leads to low productivity and dependence on outdated technology. India leads significantly in export of cotton yarn, however its share in cotton fabric of world exports is around 5-6% as against China's share of 51%. Domestic firms have to compete with players from China and Bangladesh. Negligible capacity expansions in the domestic market and rising labour cost in China can offset some of the competitive pressures.

Regulatory Risk 16/20

Stable Regulatory environment

In view of the high employment and export potential of the textile sector, the Government policies have been supportive. Some of the government's initiatives include incentives under Atma Nirbhar Bharat package, Scheme for Integrated Textile Parks, MITRA (Mega Investment Textile Parks Scheme), tweaking in GST rates for achieving fibre neutrality & A-TUFs (Amended Technology Upgradation Fund Scheme). The focus will be on technology upgradation in order to improve competitiveness of the domestic players.

Input Related Risk 16/20

No supply disruptions / very narrow price band or fluctuations

Adequate availability of raw material both in cotton as well as manmade segment. However, logistical challenges & temporary labour disruption, due to the pandemic had adversely impacted the utilisation of textile industry. The supply of key inputs has improved after the ease in restrictions imposed due to Covid. The higher prices of cotton yarn (due to higher cotton prices will impact the margins of the cotton fabric players over the near term).