INDIAN TEXTILES INDUSTRY

1. OVERVIEW

1.1 Background

The textile industry occupies a unique place in our country. One of the earliest to come into existence in India, it accounts for 14% of the total Industrial production, contributes to nearly 20% of the total exports. Being the largest foreign exchange earner, accounting for more than 5 per cent of GDP and providing direct employment to 38 million people, primarily the weaker sections, it is the second most important sector only after agriculture.

The No.1 exporter of textiles, China, has a share of more than 10 per cent followed by Korea with 8.1 per cent; India's hovers at 3.5-4 per cent. In clothing exports, China holds a share of 18.5 per cent followed by Italy (6.7 per cent) and India (3 per cent). India's share may look small but in monetary terms it is large.

It has a unique position as a self-reliant industry, from the production of raw materials to the delivery of finished products, with substantial value-addition at each stage of processing; it is a major contribution to the country's economy. The industry is composed of handlooms, powerlooms and mills. While the mill sector is well-organised and modern, the same cannot be said of the powerloom and handloom segments. The mill sector has managed to grab a reasonable share of the world export market.

Although the development of textile sector was earlier taking place in terms of general policies, in recognition of the importance of this sector, for the first time a separate Policy Statement was made in 1985 in regard to development of textile sector. The textile policy of 2000 aims at achieving the target of textile and apparel exports of US $ 50 billion by 2010 of which the share of garments will be US $ 25 billion. The main markets for Indian textiles and apparels are USA, UAE, UK, Germany, France, Italy, Russia, Canada, Bangladesh and Japan.

The main objective of the textile policy 2000 is to provide cloth of acceptable quality at reasonable prices for the vast majority of the population of the country, to increasingly contribute to the provision of sustainable employment and the economic growth of the nation; and to compete with confidence for an increasing share of the global market.

1.2 Recent Trends

The mood in the Indian textile industry given the phase-out of the quota regime of the Multi-Fibre Arrangement (MFA) is upbeat with new investment flowing in and increased orders for the industry as a result of which capacities are fully booked up to April 2005. As a result of various initiatives taken by the government, there has been new investment of Rs.500 billion in the textile industry in the last five years. Nine textile majors invested Rs.26 billion and plan to invest another Rs.64 billion. Further, India's cotton production increased by 57% over the last five years; and 3 million additional spindles and 30,000 shuttle-less looms were installed.

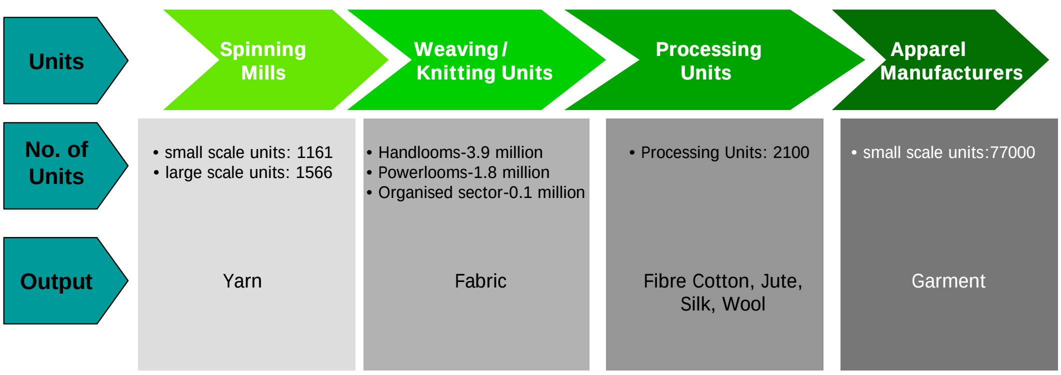
The industry expects investment of Rs.1,400 billion in this sector in the post-MFA phase. A Vision 2010 for textiles formulated by the government after intensive interaction with the industry and Export Promotion Councils to capitalise on the upbeat mood aims to increase India's share in world's textile trade from the current 4% to 8% by 2010 and to achieve export value of US $ 50 billion by 2010 Vision 2010 for textiles envisages growth in Indian textile economy from the current US $ 37 billion to $ 85 billion by 2010; creation of 12 million new jobs in the textile sector; and modernisation and consolidation for creating a globally competitive textile industry.

The textile industry is undergoing a major reorientation towards non-clothing applications of textiles, known as technical textiles, which are growing roughly at twice rate of textiles for clothing applications and now account for more than half of total textile production. The processes involved in producing technical textiles require expensive equipments and skilled workers and are, for the moment, concentrated in developed countries. Technical textiles have many applications including bed sheets; filtration and abrasive materials; furniture and healthcare upholstery; thermal protection and blood-absorbing materials; seatbelts; adhesive tape, and multiple other specialized products and applications.

1.3 Segment Analysis

India’s textile industry comprises mostly small-scale, non-integrated spinning, weaving, finishing, and apparel-making enterprises. The figure below depicts the overall value chain and the number and type of units within the industry.

Textile Sector – High Level Value Chain



1.3.1 Spinning mills

With an installed capacity of 40 million spindles, India accounts for about 22 per cent of the world’s spindle capacity. In 2005, India’s spinning sector consisted of about 1,161 small-scale independent firms and 1,566 larger scale independent units. Independent spinning mills account for about 75 per cent of capacity and 92 per cent of production.

1.3.2 Knit/Weaving/Knitting Units

India's weaving and knitting sector is highly fragmented, small-scale, and labour-intensive. The woven fabric production industry can be divided into three sectors: powerloom, handloom and mill sector. In 2005 it consisted of about 3.9 million handlooms, 1.8 million power looms, and 0.1 million looms in the organised sector. The decentralised power loom sector accounts for 95 per cent of the total cloth production. The knitted fabric forms 18 per cent of the total fabric production.

1.3.3 Processing Units

The processing industry is largely decentralised and marked by hand processing units and independent processing units. Composite mill sectors are very few falling into the organized category. Overall, about 2,300 processors are operating in India, including about 2,100 independent units and 200 units that are integrated with spinning, weaving or knitting units.

1.3.4 Garment Manufacturing Units

Small-scale fabricators dominate garment manufacturing. Most garment manufacturing units fare reasonably well on the technology count. The bulk of apparel is produced by about 77,000 small-scale units classified as domestic manufacturers, manufacturer exporters, and fabricators (subcontractors). The fragmented structure of the industry provides the advantage of a large pool of skilled workers in different areas of textile manufacturing, and also gives scope for entry of organized integrated textile manufacturers. Small scale units in different sectors can also be leveraged as a supply base for sourcing materials at low cost. Apart from these advantages, the industry has also been experiencing consistent growth across different sectors, making it one of the key potential sectors in India.

1.4 Production and Exports

India has been experiencing strong performance in the textile industry, across different segments of the value chain, from raw materials to garments. Domestic production has been growing, as well as exports.

1.4.1 Production of Fabrics

Production of Fabrics increased by 9.25 per cent in 2005-06 and upto November 2006, by 8.20 per cent over the corresponding period of the previous year.

Production of Fabrics

(in millions of square metres)

Sector	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	April-November 2005-06	2006-07(P)
Mills	1,670 (4.2)	1,546 (3.7)	1,496 (3.6)	1,434 (3.4)	1,526 (3.4)	1,656 (3.3)	1,085 (3.3)	1,234 (3.5)
Powerlooms (including hosiery)	30,499 (75.8)	32,259 (76.8)	33,835 (80.6)	34,794 (82.1)	37,437 (82.5)	41,044 (82.8)	27,105 (82.6)	29,471 (83.0)
Handlooms	7,506	7,585	5,980	5,493	5,722	6,108	4,111	4,278

	(18.7)	(18.0)	(14.2)	(13.0)	(12.6)	(12.3)	(12.5)	(12.1)
Others	558 (1.4)	644 (1.5)	662 (1.6)	662 (1.6)	693 (1.5)	769 (1.6)	513 (1.6)	513 (1.5)
Total	40,233	42,034	41,973	42,383	45,378	49,577	32,814	35,496

Note: Figures in parentheses indicate share in output
P-Provisional
Source: Office of Textile Commissioner

1.4.2 Textile Exports

The Indian textile industry contributes substantially to India's export earnings. The export basket consists of wide range of items containing cotton yarn and fabrics, man-made yarn and fabrics, wool and silk fabrics, made-ups and variety of garments. India's textile products, including handlooms and handicrafts, are exported to more than hundred countries. However, USA, EU Member States, Canada, U.A.E., Japan, Saudi Arabia, Republic of Korea, Bangladesh, Turkey, etc are the major importers of our textile goods.

During the year 2005-06, the share of textiles exports including handicrafts, jute, and coir in India's total exports was 16.63%. India's textiles exports have registered strong growth in the post quota period. Textiles exports grew from US$ 14.03 billion in 2004-05 to US$ 17.08 billion in 2005-06, recording a growth of 21.8 per cent. Therefore, the Government has fixed a higher target of US$ 19.73 billion for the year 2006-07.

Export of Textiles

(in US$ million)

Item	**2003-04**	**2004-05**	**2005-06**	**April-August 2005-06**	**April-August 2006-07 (P)**
Ready made garment	5,786.37	6,034.39	7,752.44	3,085.34	3,461.88
Cotton Textiles	3,599.95	3,544.16	4,493.20	1,650.53	2,071.09
Wool & Woollen Textiles	337.98	417.09	473.91	197.42	204.89
Manmade Textiles	1,821.24	2,050.73	2,000.08	777.20	907.83
Silk	545.21	594.56	691.83	279.06	292.75
Handicrafts	1,085.36	1,013.85	1,239.26	524.11	501.46
Coir & Coir Manufacture	77.77	105.56	134.25	53.99	59.44
Jute Goods	242.43	276.25	294.60	127.33	128.79
Total	13,496.31	14,026.72	17,079.57	6,694.97	7,628.13

Source: Foreign Trade Statistics of India (Principle Commodities and Countries) DGCI&S, Kolkata

2. GOVERNMENT REGULATIONS AND SUPPORT

2.1 Government Initiatives

The textile industry, being one of the most significant sectors in the Indian economy, has been a key focus area for the Government of India. A number of policies have been put in place to make the industry more competitive.

2.1.1 The Technology Upgradation Fund Scheme (TUFS)

Recognising that technology is the key to being competitive in the global market, the Government of India established the Technology Upgradation Fund Scheme (TUFS) to enable firms to access low-interest loans for technology upgradation. Under this scheme, the Government reimburses 5 per cent of the interest rates charged by the banks and financial institutions, thereby ensuring credit availability for upgradation of the technology at global rates. Under the TUF Scheme, launched on April 1, 1999, loans amounting to Rs. 149 billion have been disbursed to 6,739 applicants.

In consonance with the industry, the TUF Scheme has been continued during the Eleventh Plan (2007-2012). Allocation for TUF has been raised from Rs.5.35 billion in 2006-07, to Rs.9.11 billion in 2007-08. Handlooms will now be covered under the TUF scheme.

2.1.2 Integrated Textile Parks Scheme

Manufacturing is a thrust area for the government, as Indian industry and the government see foreign companies more as partners in building domestic manufacturing capabilities rather than a threat to Indian businesses. Following this through, the Central Government as well as various States has executed Schemes such as, Schemes for Integrated Textile and Apparel Parks.

Under the Scheme for Integrated Textiles Parks (SITP), 26 parks have been approved so far out of 30 sanctioned. The Budget provision for these parks has been increased from Rs.1.89 billion in 2006-07 to Rs.4.25 billion in 2007-08.

2.1.3 Scheme for Handlooms

For Handlooms a cluster approach for the development of the handloom sector was introduced in 2005-06 and 120 clusters were selected. 273 new yarn depots are opened up till now and the Handloom Mark was launched. The Government proposes to take up additional 100-150 clusters in 2007-08.

2.1.4 Health Insurance Scheme

The Health Insurance Scheme has so far covered 3,00,000 weavers and will be extended to more weavers. The scheme will also be enlarged to include ancillary workers. The

Government proposed to enhance the allocation for the sector from Rs.2.41 billion in 2006-07 to Rs.3.21 billion next year.

2.2 Quality Improvement

The Textile Commission, under the Ministry of Textiles, facilitates firms in the industry to improve their quality levels and also get recognised quality certifications. Out of 250 textile companies that have been taken up by the Commission, 136 are certified ISO 9001. The other two certifications that have been targeted by the Textile Commission are ISO 14000 Environmental Management Standards and SA 8000 Code of Conduct Management Standards.

2.3 Foreign Direct Investment (FDI) Policy

100% FDI is allowed in the textile sector under the automatic route. FDI in sectors to the extent permitted under automatic route does not require any prior approval either by the Government of India or Reserve Bank of India (RBI). The investors are only required to notify the Regional Office concerned of RBI within 30 days of receipt of in word remittance.

Ministry of Textiles has set up FDI Cell to attract FDI in the textile sector in the country. The FDI cell will operate with the following objectives:

- To provide assistance and advisory support (including liaison with other organisations and State Governments)
- Assist foreign companies in finding out joint venture partners
- To sort out operational problems
- Maintenance and monitoring of data pertaining to domestic textile production and foreign investment

2.4 Foreign Investment Scenario

Foreign investment and market presence was not very high in India's textile and apparel sector. With liberalisation in investment and the subsequent the removal of quantitative restrictions on several textile products, the Indian market now has the presence of several international brands. However, the presence is more in the nature of brand licensing with Indian players rather than direct investment. U.S. brands have a larger presence in the market than others. According to official data from the Secretariat of Industrial Assistance (SIA), the total foreign investment approved in the sector since 1991 is in the region of US $80 million, of which E.U. investment is estimated to be US$ 16.5 million a little over 20 per cent of total approvals, from 46 applications. The largest number of approvals was of investments from UK (16) and Italy (14), together representing more than 75 per cent of the cases and 86 per cent of the value approved.

A few companies have also set up export-oriented manufacturing facilities in India. Notable names include La Perla, and Brinton, a leading carpet manufacturer from the U.K. Besides investment, brand licensing and marketing joint ventures have been on the rise in the 1990s, with some of the world's most popular apparel brands entering the Indian market. Some of the highly visible names include: Levi's, Lee, Wrangler, Benetton, Pepe, Reid and Taylor, Zegna, Arrow, Louis Philippe, Van Heusen, Lacoste, and Ralph Lauren.

A new trend in recent years has been the arrival in India of expatriate and western designers (from France, Italy, UK) who are beginning to form joint ventures with Indian designers to cater to the domestic and export markets. Italian companies are investing in capacity expansion and striking manufacturing, distribution and franchising deals with India Inc. Carrera is to invest US$ 252.7 million in textile projects in India.

Although direct investment in retail remains closed to FDI as of now, companies have found alternative structures through which they can approach Indian consumers (examples include Levi Strauss, Marks & Spencer, Royal Sporting House, Adidas, Nike and Reebok in fashion products). There is certainly a broader opportunity to "grow the market from inside" as companies can freely set up fully-owned sourcing (liaison) offices, as well as marketing operations. The number of FDI approved between 1991 and 2004 was 641 which amount to over US$ 1.02 billion.

Following is the record of FDI in Textile sector in India in recent years.

Year (Jan – Dec)	Total no. of cases	No. of FDI Approved	No. of Technical Cases approved	Amount of FDI approved
1991	11	4	7	5.77
1995	94	78	16	127.47
2000	58	47	11	53.98
2001	36	22	14	6.48
2002	34	28	6	13.68
2003	47	36	11	8.25
2004	23	20	3	23.87
2005	10	9	1	67.56

2.5 Other legislations regarding the Textile sector

Ministry of finance has added 165 new textile products under duty drawback schedule. The new products included wool tops, cotton yarn, acrylic yarn, viscose yarn, various blended yarn/fabrics, fishing nets etc. Further, the existing entries in the drawback schedule relating to garments have been expanded to create separate entries of garments made up of (1) cotton; (2) man made fibre blend and (3) MMF. Separate rates have been prescribed for these categories of garments on the basis of composition of textiles.

After the phasing out of quota regime under the MFA, India can envisage its textile sector becoming $100 billion industry by 2010. This will include exports of $50 billion. The proposed targets would be achieved provided reforms are initiated in textile sector and local manufacturers adopt measures to improve their competitiveness. A 5-pronged strategy aiming to attract FDI by making reforms in local market, replacement of existing indirect taxes with a single nationwide VAT, liberalization of contract norms for textile and garments units, elimination of restrictions that cause poor operational and organizational performance of manufacturers, was suggested.

The Union Minister said that the Board for Industrial and Financial Reconstruction (BIFR) had approved rehabilitation schemes for sick NTC mills at a cost of Rs 39 billion. Of the 66 mills, 65 unviable mills have been closed after implementing Voluntary Retirement Scheme (VRS) to all employees. According to him, the government has already constituted assets sale committees comprising representatives of Central and state governments, operative agency, BIFR, NTC and the concerned NTC subsidiary to effect sale of assets through open tender system.

Proposals for modernization of NTC mills have been made to the consultative committee members, including formation of a committee of experts to improve management of these mills. Even the present status of jute industry was under the scanner of the consultative committee.

The Government had announced change from the value-based drawback rate hitherto followed to a weight-based structure for textile exports that will discourage raw material exports and also curtail the scope for misusing the drawback claims by boosting invoice value of exports.

NCDEX has launched its silk contract (raw silk and cocoon). With this launch, the total number of products offered by NCDEX goes up to 27. The launch of the silk contract will offer the entire suite of fibres to the entire value chain ranging from farmers to textile mills. With the objective of protecting the interests of those affected by the WTO agreements and globalisation process, Government of India jointly with NCDEX has adopted a policy of encouraging future contracts of silk.

The Government will run during the Eleventh Plan period a Scheme for the Development and Growth of Technical Textiles (SDGT) at an outlay of Rs 960 million to promote indigenous manufacture of technical textiles. The scheme would also provide infrastructure support by setting up centres of excellence for manufacture of technical textiles.

3. MAJOR PLAYERS

3.1 Arvind Mills Ltd.

Arvind Mills Limited is the flagship company of the US$550 million Lalbhai Group. It is engaged in the production of the widest range of textiles. It is the world's largest exporter of denim and Asia's largest denim producer. Ranking among the top denim manufactures of the world, 120 million metres of denim roll out every year from Arvind plants and is stitched into leading international denim brands in more than 70 countries. The company is also in the garment and mens' shirting business under the brand names of 'Newport', 'Flying Machines', 'Lee', 'Arrow'.

Rs. million	2004	2005	2006
Net Sales	14,352.8	16,549.2	15,920
Net Profit	967.5	1,273.5	1,271.6

3.2 Raymond Ltd.

Incorporated in 1925, the Raymond Group is a US$ 300 million plus conglomerate having businesses in textiles, readymade garments, engineering files & tools, prophylactics and toiletries. The group is the leader in textiles, apparel, files and tools in India and enjoys a pronounced position in the international market. Raymond Textile produces pure wool, wool blended and polyester viscose fabrics and blankets along with furnishing fabrics. The denim division produces high quality ring denims. Raymond believes in excellence, quality and leadership.

Rs. million	2004	2005	2006
Net Sales	10,234.1	11,438.3	13,247.4
Net Profit	1,322.9	831.5	1,210

3.3 Alok Industries

Established in 1986 as a private limited company, Alok Textiles began as fabric traders and suppliers to the garment industry. Beginning with texturising of yarn, the company steadily expanded into weaving, knitting, processing, home textiles and readymade garments. In 1993, it became a public limited company. In less than two decades, it has grown to become a diversified manufacturer of world-class apparel fabrics selling directly to garment manufacturers and exporters.

Rs. million	2004	2005	2006
Net Sales	10,688.5	12,245	14,207
Net Profit	710.8	892.5	1,092.1

3.4 Aditya Birla Nuvo Ltd.

Aditya Birla Nuvo Ltd. is Aditya Birla group's most diversified conglomerate. Earlier it was known as Indian Rayon Ltd. (IRIL), it was rechristened as Aditya Birla Nuvo in 2005. It is the second largest producer of viscose filament yarn in India. It is also the largest branded apparel company in India. It is a diversified company and operates a wide range of businesses. Its focus areas are viscose filament yarn, carbon black, branded apparels, textiles and insulators. It has also made forays into insurance, software and Business Process Outsourcing (BPO).

Rs. million	2004	2005	2006
Net Sales	15,773.9	18,608.5	26,420.5
Net Profit	1,312.8	1,137.2	1,869.3

3.5 Century Textiles

Century Textiles & Industries was incorporated in 1897. Till 1951, it had only one industrial unit—Cotton Textile Mills. It has Asia's largest composite 100 per cent cotton textile mill. Century has diversified into other businesses as well. At present, Century is not only the trend setter in cotton textiles, but also a presence in yarn, denim, viscose filament rayon yarn, tyre cords, caustic soda, sulfuric acid, salt, cement and pulp & paper.

Rs. million	2004	2005	2006
Net Sales	21,960.1	24,560.9	25,782.7
Net Profit	765.9	1,096.3	1,090.5

3.6 Welspun India

Beginning with a small texturising unit in 1985, the group has significantly expanded and diversified its business. It now has interests in terry towels, LSAW pipes, pipe coating, cotton yarns, PFY, bathrobes and buttons. The group has ties with 12 out of top 20 retailers in the world namely Wal-Mart, K-Mart, JC Penny and Target to name a few. LSAW pipe clientele includes names such as Shell, Gazprom, ExxonMobil, etc.

Rs. million	2004	2005	2006
Net Sales	3,380.4	4,531.1	6,537.3
Net Profit	300.3	385.8	415.5

3.7 Himatsingka Seide Ltd.

The company commenced its operations on 15 February 1985. It manufactures natural silk fabrics under a 100 per cent export oriented unit scheme. The company undertook to set up a composite silk mill with an annual capacity of 750,000 square meters for producing natural silk fabrics. It produces a wide range of regular and fancy 100 per cent silk and silk blended yarns. Its weaving division - Himatsingka Seide, offers yarn dyed decorative, bridal and fashion fabrics. The entire operation of winding, doubling, twisting, dyeing, weaving and finishing is integrated under one roof.

Rs. million	2004	2005	2006
Net Sales	1,355.6	1,379.8	1,509
Net Profit	505.2	464	483.1

3.8 Bombay Dyeing

Bombay Dyeing is one of India's largest producers of textiles. The company is one of the largest and oldest textile companies in the country. It manufactures cotton and blended textiles. Product mix comprises suitings, shirtings, sarees, towels and bed linen. The company was formed on 23 August 1879 by Nowrosjee Wadia, a dye works near Mahim. This was the mill, which first started dyeing of yarn in India. Bombay Dyeing Mfg. Co. Ltd. was set up in 1895. Nowrosjee Wadia & Sons become the managing agents in 1898.

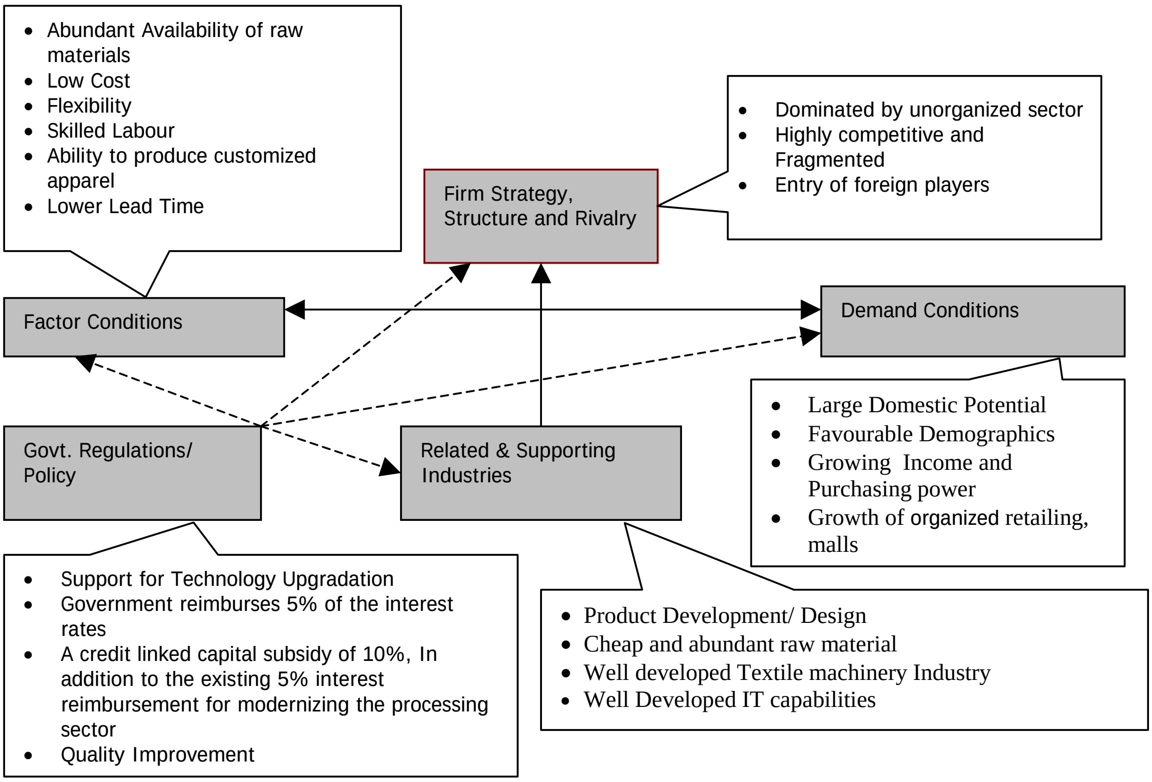
Rs. million	2004	2005	2006
Net Sales	9,055	10,256	10,130
Net Profit	535	265.6	613.4

4. OPPORTUNITIES AND CHALLENGES

4.1 Opportunities

India's strong performance and growth in the textiles sector is aided by several key advantages that the country enjoys, in terms of easy availability of labour and material, buoyant and large market demand, presence of supporting industries and supporting policy initiatives from the government. These advantages can be exhibited within the framework given in the figure below, and are further discussed in the subsequent sections.

Indian Textile Industry – Porter's Diamond Analysis



4.1.1 Abundant availability of Raw Materials

4.1.1.1 Cotton

Cotton is the predominant fabric used in the Indian textile industry – nearly 60 per cent of the overall consumption in textiles and more than 75 per cent production in spinning mills is cotton. India is among the world's largest producers of cotton with nearly 9 million hectares under cultivation and an annual crop of around 3 million tonnes. In the year 2004-05, India produced nearly 17.7 million bales of cotton.

4.1.1.2 *Wool*

India's wool industry is primarily located in the northern states of Punjab, Haryana, and Rajasthan. These three states alone account for more than 75 per cent of the production capacity, with both licensed and decentralised players. There are more than 700 registered units in the sector and more than 7000 power looms and other unorganised units. The woollen industry provides employment to approximately 1.2 million people. India's raw wool production in 2003-2004 was over 50 million kg. The large players in the sector have made significant inroads into the world market, as a result of supply tie-ups and joint ventures with important brands in EU and other developed countries.

4.1.1.3 *Silk*

India is the second largest producer of silk in the world, contributing about 18 per cent to global production. The value of silk fabrics produced in India in 2002-2003 was over US$ 1.78 billion. India also exported over US$ 190 million of silk goods and over US$ 357 million of silk yarn, fabrics and made ups. Growing demand for traditional silk fabrics and exports of handloom products have spurred growth in silk demand.

4.1.1.4 *Jute*

Jute industry occupies an important place in India's economy, being one of the major industries in the eastern region, particularly in West Bengal. It supports nearly 4 million farming families, besides providing direct employment to 260,000 industrial workers and livelihood to another 140,000 people in the tertiary sector and allied activities. Nearly 1 million hectares of land is under jute cultivation.

4.1.1.5 *Handloom*

The handloom sector is based on Indian traditional crafts. It employs nearly 7.5 million people and contributes 13 per cent to cloth production. Handlooms receive preferential policy treatment as they are highly labour intensive and viewed as a source of employment and supplementary income for 6-7 million people in over 3 million weaver households.

4.1.2 *Low costs*

India has significantly lower raw material costs, wastage costs and labour costs when compared to other countries.

A recent study estimated India's labour costs (total employment cost for labour across industries) to be amongst the lowest (2.024 Euro) in the world, a sixth of even China's (13.88 Euro)

4.1.3 *Manufacturing flexibility*

The fragmented industry structure and small average scale of operation in India's textile industry has created the capability for enhanced flexibility in production. Indian firms are used to handling small-runs, and have skilled manpower with the ability and willingness to work on complex designs. Therefore India has the ability to produce not only large orders but also smaller and complex orders. In contrast, the textile industry in other countries like China are more industrialised, and production lines are mostly geared to handle relatively simple designs that can be easily broken down and mass-produced. The flexibility offered by India's textile industry can be a significant advantage for the fashion industry, which typically demands small lots of complex designs. India also offers flexibility in its ability to handle different materials such as cotton, wool, silk and jute, with equal skill. These advantages also enable the Indian industry to produce high value customised apparel that is increasingly finding demand in several exports markets.

4.1.4 Lower lead times

India is one of the few developing countries today with a fully developed textile value chain extending from fibre to fabric to garment exports. The presence of capabilities across the entire value chain within the country is an advantage as it reduces the lead time for production and cuts down the intermediate shipping time. Indian textile firms have leveraged this advantage to integrate their operations, either forward or backward. For example, Arvind Mills, the largest producer of blends and denim in the country and the third largest denim producer globally, supplies fabric to virtually every major clothing brand in the world, such as Levi's, Gap, Dockers and so on. Three years ago it integrated forward into garment manufacturing (jeans and T-shirts), investing more than $30 million in ten new factories.

4.1.5 Favourable demand conditions – large, growing domestic market

Demographic trends in India are changing, with increase in disposable income levels, consumer awareness and propensity to spend. According to NCAER data, the Consuming Class, with an annual income of US$ 980 or above, is growing and is expected to constitute over 80 per cent of the population by 2009-10. There is a change in the consumer mindset that has led to a trend of increased consumption on personal care and lifestyle products as well as branded products. These trends offer great growth opportunities for companies across various sectors, including textiles. Supporting the increasing demand for consumption is the revolution taking place in India's retail sector. Organised retail is playing a key role in structuring the Indian domestic market, reinforced by the rapid rise of supermarkets, malls, theme stores and franchises across urban India. India thus presents a large and vibrant market for textiles and apparels, with a potential for sustained growth.

4.1.6 Strong presence of related and supporting industries

India's textile industry is supported by well established supporting industries and institutions that provide inputs and expertise to the industry in terms of design, engineering and machinery.

4.1.7 Product development/ design

India has built adequate infrastructure throughout the various stages in textile development, that is, design, sourcing, merchandising and production. Apart from institutes such as NIFT (National Institute of Fashion Technology) and Apparel Training Institutes, there are several colleges, including the Indian Institutes of Technology and National Institutes of Technology that offer courses in Textile Engineering. Thus, India has the infrastructure in place to produce qualified and skilled manpower in areas of textile design and engineering Indian firms have leveraged this strength to develop a competitive advantage – the ability to contribute to the design, not only in preparing samples and prototypes, but also in translating concepts into varieties of finished designs, as well as introducing designs of their own. Several Indian firms have their own design departments and in the last five years have begun to work closely with overseas designers and/or agents. High value, up-market specialty buyers such as Gap, Banana Republic and J. Crew value such expertise and have been leveraging this while buying from India.

4.1.8 Textile machinery

The Indian textile engineering industry, which began as an offshoot of the textile industry, is today reckoned as the largest segment in the country. Indian textile machinery manufacturers are able to produce at competitive prices sophisticated machines of higher speed and production capability. The textile industry also gets significant support from the well developed IT capabilities of Indian firms.

4.1.9 Industry competition – promotes innovation

Despite a large and growing market, the presence of a large number of small scale players makes the Indian textile Industry highly competitive. A number of MNCs have also entered India in different areas. The high level of competition in the industry impels the firms to work to increase in productivity and innovation. India today is one of the lowest cost manufacturers of quality textiles, not only due to its inherent strengths, but also because industry rivalry has prompted firms to focus on quality improvement, cost reduction and productivity increase.

4.1.10 Favourable Policy Initiatives

The Indian Government is trying to create an environment to attract an investment of Rs 1,400 billion in the Eleventh Plan period (2007-2012) when the textiles and garment exports are expected to rise from the current US$14 billion to US$40 billion.

The Multi Fibre Arrangement (MFA) that came to an end on January 1, 2005 has opened up a plethora of opportunities for the Indian textile industry. Global trade in textiles is expected to increase to US$ 600 billion by 2010 from US$ 356 billion in 2003. The phasing-out of MFA has ensured that quota restrictions in US, European Union and Canada which restricted textile and apparel exports from India to these regions have been removed.

India and China are the two countries poised to derive the maximum benefit from the phasing out of MFA. India's quota allocation for important markets like the US, EU and Canada was very low.

With textiles accounting for almost 20 percent of Indian exports, and the industry and allied areas providing employment to around 80 million people in India, the Indian government is turning its attention to removing the bottlenecks that hinder its growth.

4.2 Challenges

The Indian textile industry faces a host of constraints:

- Fragmented structure with the dominance of the small scale sector
- High power costs
- Rising interest rates and transaction costs
- Unfriendly labour laws
- Logistical disadvantages in terms of shipping costs and time pose serious threats to its growth
- Foreign investments are not coming in as the overall factors influencing the industry are not investment friendly

In many instances Indian export consignments faced non-tariff barriers in the US market, mainly in the form of shipments being subjected to rigorous labelling and marking requirements, security parameters and document verification at US ports and issues relating to compliance with labour and environmental norms. The main forms of restrictions that have been raised, with respect to some Indian shipments in the US, are in the form of norms violating US child labour policies, sanitary measures in the Indian suppliers' workplace, suspected use of azo-dyes and security checks of consignments.