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## FOCUS: Indian Textiles - opportunities and constraints

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India is the 11th largest economy in the world. However, approximately 65.2m families live in poverty. India's per capita GDP is three to four times less than that of China. The Indian economy is dependent on agriculture and manufacturing.

Within manufacturing, textiles and automobiles play an important role in giving jobs to the skilled, semi-skilled and rural people. There are both opportunities and constraints. Important constraints are raw materials, power and the lack of a skilled workforce. The emerging opportunity within the textile sector lies in growing the fragmented and nascent technical textiles sector.

Among the constraints, cotton is of paramount importance. The western hemisphere has not started planting cotton for the 2011 season and the world is facing a severe shortage. A good discussion on the cotton scenario will be of help to the Indian textile industry.

Cotton scenario: revised Indian crop estimate for 2010-11 released

Indian cotton production for the 2010-11 season is expected to drop to 31.2 million bales (170 kg each), according to revised estimates from India's Cotton Advisory Board (CAB). This is 1.7 million bales less than the CAB's earlier estimate on January 6.

India is expected to plant 11.16 million hectares of cotton this season, with the country's average yield forecast at 475.23 kg per hectare.

The Central Zone, comprising Gujarat, Maharashtra and Madhya Pradesh, is expected to produce 20.1 million bales. Of the three largest cotton producing states, Gujarat is estimated to produce 10.2 million bales, Maharashtra 8.2 million bales and Andhra Pradesh 5.3 million bales.

The cotton area in Maharashtra is estimated to stretch across 3.97 million hectares. In Gujarat this area is approximately 2.63 million hectares, expected to produce an average yield of 658.56 kg/ hectare.

The Southern Zone, comprising the states of Andhra Pradesh, Karnataka and Tamil Nadu, is expected to produce 6.8 million bales.

Total consumption for the 2010-11 season is expected to reach 27.5 million bales. The opening cotton stock this year, running from October 2010 to September 2011, is provisionally estimated at 4.05 million bales.

India's cotton export for this season currently stands at 5.5 million bales (170 kg each).

The Cotton Association of India has estimated the production to be 34.75 million bales of 170 kg each, which is higher than the CAB's latest estimate. The supply according to CAI will be 40.9 million bales and the demand will be 26.6 million bales which will leave a surplus of 14.3 million bales.

Indian spinning industry body estimates lower cotton production

With over 400 members, the Coimbatore based Southern India Mills' Association (SIMA) has forecast the 2010-11 season crop will be 2 million bales (170kg each) less than the recent CAB estimate.

In a recent press statement, J. Thulasidharan, chairman of SIMA, said that with the current cotton production scenario, Indian mills will face supply shortfall from this July, leading to a sharp increase in yarn prices. He has requested the Ministry of Textiles to take up the cotton export

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- BCI (Better Cotton Initiative)
- Cotton Association of India
- Reliance Industries
- SIMA
- Southern India Mills' Association (SIMA)
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matter with the Ministries of Commerce and Agriculture. SIMA wants the cotton export ceiling to remain at 5.5 million bales (170kg each).

Whilst laying the foundation stone for a mega weaving complex in the Southern State of Tamilnadu, Indian Textile Minister Dayanidhi Maran emphasised that the cotton export limit should be maintained at 5.5 million bales, in order to bring down cotton prices in the domestic market.

On January 25, Textile Commissioner Anil Joshi reiterated that the revision of cotton export limits can only be decided by the group of ministers concerning the Agriculture, Commerce and Textile Ministries. As no date has been set for this group to take up the cotton export situation, the export limit stands at 5.5 million bales.

#### Indian cotton export and the Indian textile industry

Whilst addressing the 66th annual conference of the Textile Association in Bangalore, NSL Group chairman M. Prabhakar Rao, expressed the loss to the Indian textile industry of exporting raw cotton. Home to India's largest seed company, Nuziveedu Seeds Pvt Ltd, NSL Group is a conglomerate with interests in hybrid seeds, cotton, textiles, power and infrastructure.

According to Mr Rao, when exported in raw form cotton loses about 500% of its value, as compared with exporting finished garments. In his personal capacity as the chairman of NSL Textiles, Mr Rao expressed concern over the timing and export of raw cotton, calling for increasing cotton yields in India. If the Indian yield levels-off with that of the world's best level, India can double its production from the current level of 5.5 million metric tonnes (MT) to 11 million MT.

In January, Mr Rao said India's production has the capacity to double in four years provided the government policy is supportive. By enhancing the yield, some 50 hectares can be freed from cotton to other crops. He made a clarion call for the Better Cotton Initiative, mechanical harvesting and encouragement for contract cotton farming. He wants the Indian cotton sector to have a suitable hedging mechanism to safeguard the interests of farmers and the textile industry, providing a good buffer stock.

According to Mr Rao, the Indian textile industry is suffering due to a price hike in cotton exports. Since the first week of January, the cotton price in India has soared over 20%.

Even if India doubles its cotton capacity, the country's growing textile industry will require an extra 10 million MT of fibres this decade, in addition to its current consumption of 8 million MT.

#### India's cotton consumption is expected to rise in this decade

India's textile industry will need additional 10 million MT of fibres in order to reach a value of \$220bn by 2020. According to Ashish Dhir, associate vice-president of Technopak Advisors Pvt Ltd, valued at \$70bn in 2009, India's textile industry is estimated to reach \$220bn by the end of the decade. By 2020, the domestic market will be \$140bn and the export market will be worth at \$80bn.

At the present level, India's textile industry consumes 8 million MT of fibres. Of the additional 10 million tonnes of the fibre requirement, only 3 million tonnes can be contributed by cotton, according to Mr Dhir. At the Textile Association annual conference, Mr Dhir said that due to land requirement for food crops, acreage enhancement for cotton production will be limited.

Dr Keshav Raj Kranti, director of the Central Research for Cotton Research, in Nagpur, has said that the cotton acreage increase will be limited, reaching a maximum level of 11.5 million hectares. Current cotton acreage is at 11 million hectares. Mr Kranti insisted that yield enhancement is the way to increase the production.

Mr Badami, vice-president of Polyester Reliance Industries Ltd, highlighted that the recent growth in demand of fibres in India hit 6.5%, whereas worldwide growth in demand only reached 2.4%.

India's current installed ring spinning spindle capacity of 43 million is expected to increase by 2 to 3 million spindles in the next two to three years. Increase and replacement of old spindles, which may soon touch 3 million, will lead to the higher consumption of cotton, as well as other fibres, by the domestic spinning industry.

Currently, the cotton price is shooting up due to the bulk purchases by exporters and the excessive need of the South Indian mills. On January 30, spot price for Sankar-6 hit 51,000

Rupees (\$1,118) per candy (356kg). The price on January 7 was 42,000 Rupees (\$921.45) per candy. In three weeks time, the price has shot up by over 20%.

According to an executive at Maxwell Industries, a manufacturer of branded cotton undergarments, it is difficult to buy a bulk quantity of bales due to the supply squeeze and in few months the Indian spinning industry may face an acute cotton shortage. He expressed a concern that India may need to import cotton if cotton prices continue to sky rocket in the current situation.

Bt cotton seeds will be in short supply in India

India's cotton production increases in recent years have been due to the use of Bt cotton and hybrid seeds. There is a danger to this enhanced output due to predicted short supply of Bt cotton seeds.

On February 16, Dr Shanthu Shantharam, executive director of the Association of Biotechnology Led Enterprises-Agricultural Group (ABLE-AG) advised that there is a predicted shortfall of 5 million packets of Bt cotton seeds (450g each) for the 2011-12 planting season. He commented that the requirement for the next season will be around 40 million packets and it is estimated that seed companies can produce about 35 million packets.

Dr Shantharam identified several issues and complexities affecting the short supply of Bt cotton seeds. Among those, he emphasised the fact that seed companies are not able to supply seeds to growers at a subsidised rate when production costs are rising. Seed production costs have increased by 30-40%, with seed prices unable to keep pace.

Cotton jumps over the roof

The market has rated cotton at over \$2 a pound. Cotton settled at \$2.04 a pound for the March '11 shipment at the InterContinental Exchange (ICE New York Futures) on February 17, reaching the daily limit of 7 cents. This sets a new record for cotton at the exchange. The May '11 contract settled at \$2.01 a pound, whilst the March contract price climbed by 40% in a month.

Grady Martin, director of sales at the Plains Cotton Cooperative Association in Lubbock, Texas, the largest cotton marketing cooperative in the US, attributed the high market price to the short supply worldwide.

Although, cotton has hit a new record, such a high price is not realised by the farmers. Roger Haldenby, vice president of operations at the Texas based, Plains Cotton Growers, Inc said: "I feel we must be clear that \$2 a pound is not what our farmers have received for their cotton. It is what the market says is the value of the very limited world inventory at this time."

On the supply of cotton, Mr Haldenby said: "The world inventory must soon start to be replenished by southern hemisphere harvest before we see supply problems easing. The northern hemisphere 2011 crop has not yet even been planted.

"I believe it will be into the 2011-12 marketing year before we see demand being satisfied and prices getting to a level that is high enough for producers on the supply side, and low enough for our customer spinning mills around the world."

Plains Cotton Growers represents cotton growers in the 41 county area on the High Plains of Texas, USA. This region produced 30% of total US cotton crop last year.

While the futures market for March delivery crossed the \$2 mark, the spot price for Sankar-6 (28-29 mm staple) in Gujarat, India was in the range of 57,500 Rupees (\$1,261.52) to 57,900 Rupees (\$1,270.29) per candy (356kg).

Where are opportunities?

Indian textile industry needs diversification and value-addition across the value-chain. This can be in the enhancement of productivity, captive consumption in terms of input material, power, power generation and saving. Technical textiles is an important sector currently receiving much needed attention. Within this market, it is important to grow the converting sector to develop products closer to the consumers. The consumer relevant technical sector should be developed in India.

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