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TEXPROCIL Enewsletter

A fortnightly publication of THE COTTON TEXTILES EXPORT PROMOTION COUNCIL OF INDIA

www.texprocil.org.in

ISO 9001:2008 CERTIFIED COMPANY

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EXPERT SPEAKS

CHAIRMAN'S MESSAGE

Dear Friends,

The month of May began with the Government taking stock of the export performance of various segments in the Textile & Clothing sector. Export data for the fiscal year 2015-2016 shows that there is an overall decline in the exports of Textiles & Clothing of (-) 2.54%. Export of cotton textiles (including Cotton) with which we are concerned also showed a decline of (-) 3.06 % during the last fiscal year.

Meeting to fix Target for 2016-2017

In order to review the export performance and set targets for the fiscal year 2016-2017, a meeting was convened by the Secretary, Ministry of Textiles on 13 May 2016. On behalf of the Council, I attended the meeting along with the Executive Director.

We pointed out that the pending issues relating to extending benefits under the MIES and interest equalization schemes to the Cotton Yarn sector should be expedited. We also stated that the benefit of interest equalization scheme should be extended to the merchant exporters. Apart from this, we also highlighted the need to address issues relating to high transaction costs under the "Ease of Doing Business" initiative. The urgent need to accelerate the pace of negotiations for concluding an FTA with EU considering the loss of market share to Pakistan in 37 product categories was also emphasized.

Friends, while the Government gave us patient hearing, their concern is that in-spite of various obstacles and the lack of a level playing field, textile exporters are not approaching the markets in strategic terms but are always looking up to the Government for various sops.

Indo - EU FTA

The sense we are getting is that the Indo - EU FTA on which we are pinning our hopes for getting a level playing field in the EU markets may not materialize anytime soon, considering many other trade and non- trade issues which are playing out in the background.

Council's Calendar of Events

It becomes therefore necessary for all of us in the trade, industry and in the Council to recognize this reality and recalibrate our approach and find positives in our policies and intensify our marketing efforts.

On it's part the Council has drawn up a comprehensive program to target new markets like Myanmar, Iran, Indonesia, Mexico apart from intensifying our efforts in markets like China, Colombia, Turkey, Egypt, Bangladesh.

The Council's calendar of events is already available on the website

CHAIRMAN'S MESSAGE

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(www.texprocil.org). I request all our members to participate in these events in large numbers, even if it means participating without MDA/ MAI assistance. This will help all of us grow our businesses and enable us to explore newer opportunities.

For the record the Council's target for the fiscal year is likely to be fixed at US$ 14 billion marking an increase of 10% over the previous year's performance.

Considering these targets, Friends, we have a daunting task ahead and I am sure we will all rise up to the challenge!

Indo-Belarus Joint Working Group

The first meeting of the Indo-Belarus Joint Working Group (JWG) was also held at New Delhi on 11 May 2016. While India's trade with Belarus is small but Belarus is a major producer of Flax fibre used to produce linen fabrics. They have also made impressive strides in the field of "Technical Textiles". The Belarusian delegation was keen to explore joint ventures and tie- ups with Indian manufacturers in both production and distribution of Flax fibre and development of technical textile products.

Meeting with Director General of Safeguards

We also met the officials of Directorate General of Safeguards, Government of India along with Chairman, CITI on 16 May, 2016 in connection with the anti- dumping investigation initiated on imports of "Elastomeric Yarn" from Vietnam, China, South Korea and Taiwan. We impressed upon the officials not to levy anti-dumping duty on this type of yarn, as the fabric made out of this yarn is being used in large quantities by the Garment exporters. According to current estimates almost 40% of the garments being produced in the world have a component of elastomeric yarn.

While the anti- dumping proceedings are legal in nature and based on an analysis of market and production data, the Ministry officials agreed to keep the larger public interest in mind while finalizing the case. A public hearing will also be held by the Government in due course to elicit the views of all the stake-holders.

Meeting with Chief Economic Advisor, Ministry of Finance

Another important development during this period was a meeting held by our immediate past Chairman Shri Manikam Ramaswami along with the Executive Director of the Council with the Chief Economic Advisor in the Ministry of Finance, Shri Arvind Subramaniam. At the meeting, Shri Ramaswami briefed the Chief Economic Advisor about the potential of the Textile Industry to create employment in the country and the need to give it adequate attention by the Government in the policy framework.

Three critical areas were emphasized in the meeting. Firstly the raw-material pipeline especially in the man- made fibre segment needed to be cleaned up so that raw materials are available to the value added manufacturers in the downstream segment at international prices. Secondly, FTA's with European Union, Australia, Canada need to be expedited as India was losing market share to competing countries on account of preferential tariffs being accorded to them. Thirdly, reforms in labour laws and a need to give a policy thrust to create a "Hub & Spoke" model of garment production involving hinterland areas adjoining tier3/4 cities so as to create employment locally. For this purpose the Government should facilitate availability of land for constructing "industrial sheds" to set up manufacturing and stitching facilities.

The Chief Economic Advisor and his team of officials agreed to examine the suggestions and take them forward appropriately.

Conclusion

Friends, as can be seen, we are making a multi- pronged effort to position the textile and apparel sector in the forefront of economic activity in our country. A lot of sympathy for our concerns is in evidence across the Ministries in the Government of India as the realization is dawning that the traditional labour intensive Textile and Garment industry can sustain the required growth with jobs.

While the Government grapples with the ways and means to provide a fillip to the potential in the industry, we in the industry and trade also have an obligation to gear up and create opportunities in addition to making the most of the existing ones.

It is only then, can we expect to achieve the target of US$ 14 billion set for our sector in fiscal 2016-2017.

R K Dalmia
Chairman

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COVER STORY

Is 'Scale' important for export oriented Competitive and Compliant manufacturing or is it a MYTH?

In Textiles as in most value adding downstream industries, there is a threshold scale required to produce at lowest possible costs in that country.

Compliance in manufacturing does not depend on scale, it does not cost a lot more than normal infrastructure. Compliance is poor among small scale and low medium scale more out of ignorance of its importance and requirements.

Solution is education! Workshops to get them to speed to become export compliant in infrastructure and practices.

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Edited & Published by:
Siddhartha Rajagopal

Editorial Team
N. Ravindranathan,
Rajesh Satam, A. Ravindrakumar,
Shailesh Martis, Sanjay Rane

Ideas & contributions are welcome at:
texprocil1@gmail.com; mktg@texprocil.org

Editorial & Publishing Office at :

TEXPROCIL
The Cotton Textiles Export Promotion Council
Engineering Centre, 5th floor, 9, Mathew Road,
Mumbai – 400 004. India.
Tel: +91 22 23632910 to 12
E-mail: info@texprocil.org

What is the optimal size for textiles, how does one know it?

Empirical evidence of rapid growth from the cut off size is the way to identify the threshold size.

The empirical data of capacity from which growth has happened rapidly (without government subsidies) is a good way to determine this cut off.

Rapid Growth of large companies (many of which later collapsed), indicate the malice of the present capacity based state and central incentives — Creates apparent competitiveness.

Minimum capacity for optimal cost of production

- In ginning it is 200 bales per day capacity
- In spinning 12000 spindles
- In weaving 75 air jet looms
- In processing 50,000 meters per day
- In Garmenting 250 machines set up

Textiles is an entrepreneurial business, most large companies too have owner management.

Above the threshold capacity the expansion is just repeat of the optimal module, there is no specific cost advantage, infact size adds layers and costs.

Most Indian companies do not have their brand and are producing for big International brands, they do some product development but not much.

The more famous Indian brands do not make their products, they invariably outsource their manufacturing Smaller companies are nimble footed and are quick to react.

Japan built its manufacturing capability by letting manufacturers concentrate on manufacturing even as they were closely linked to the final customer through intermediaries.

Marketing was done through marketing giants or to an assembly company / brand name that undertook took the last mile effort.

Bigger companies are "apparently more profitable" due to

1) Very high state and center subsidies, mega projects enjoy several benefits
2) Lower cost of funds due to better rating , rating agencies are rating companies based on perception, pressure besides financials (Most

COVER STORY
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Is scale important for export oriented Competitive and Compliant manufacturing or is it a MYTH?

companies which are now in the sticky list were rated as A or better until the previous year of turning NPA)

3) Mega companies have higher capital cost on books for the same capacity barring one or two, clearly indicating over invoicing

Over invoicing of acquired asserts give the following benefits

1) Makes projects eligible for higher state and central subsidies
2) Thanks to interest subsidy and capital subsidy, over invoiced portion when invested even in bank deposits earn money for the company (invariably used in speculative investments)
3) When over invoiced portion is taken as third party commission overseas and brought back as sale proceeds of exports , it earns in addition to the amount of third party commission , drawback and incremental turnover incentives (in excess of 10%)
4) Additional amounts brought in as export realization boosts companies' profits and share prices , improves rating and helps raise money from market and increase, substantially reduces cost of money and increases potential to borrow more from the banks to further expand
5) In some cases choose automation where it is not required in order to be seen as more modern to attract customers, using low or zero cost funds

The best way to incentivize investments in Textiles should be based on capacity, and not based on investment made; as capacity and employment are in general correlated.

Spreading investments and creating more companies will force companies to remain efficient and lean. Consolidation of production / products from many producers for exports by buying houses will help big customers source their requirements through a single entity. This is the best way to split the different capabilities and get the lowest cost to customer.

Tirupur exports close to Rs.25000 crores there are only 2 companies exporting in excess of Rs.1000 crores, the rest are around Rs.25 crore on an average. All major brands have their buying offices or deal through buying houses, who assist in product development, QC, and consolidate the products from several vendors to be delivered to the end customer.

India exports over Rs.25000 crores of yarn , only one company exports close to Rs.1000 crores others export below Rs.100 crores average will be around Rs.50 crores.

Similarly grey fabrics, the biggest exporter is just Rs.500 crores, in a total exports of close to Rs.18000 crores.

Most big exporters of Bed linen or garments source their fabric requirements from several sub 50 crore companies who have the lowest cost structure.

All the above clearly evidence the fact that very large scale manufacturing is not the lowest cost manufacturing.

Garmenting

Hub and spoke model offers lowest cost, if facilitated by Government it is possible to rapidly grow this model.

The challenge is to get land in agricultural villages to locate the Spokes

Hub will contain –

1. Fabric ware house
2. Trims ware house
3. Cutting and assorting
4. Special machines like profile stitching, pocket attaching, embroidery, printing,
5. Washing – as it needs ETP
6. Final inspection
7. Packing
8. Warehousing finished goods
9. Out bound logistics
10. Product development, pattern making etc. – Pre production activities

COVER STORY
(CONTD FROM PAGE 4)

Is scale important for export oriented Competitive and Compliant manufacturing or is it a MYTH?

Cut parts and stitched parts using special purpose machines will be sent to Spokes for assembly

The Spokes will contain –

1. Sewing operation
2. Production staff
3. Junior Industrial engineer to help line setting
4. Line QA and line QC (can be promoted experienced tailors)
5. Tailors and helpers

The spokes will do the assembly of cut or semi made parts into final garment and send it to Hub for final inspection, packing and outbound logistics.

In terms of ratio of management and technical staff, it will be 80% / 90% in the Hub and 10% / 20% in the Spokes

In terms of workers it would be 20% in the Hub and 80% in the Spokes

Typically each Spoke will have 200 /300 workers, all drawn from nearby villages. Workers would typically either cycle or walk to work place in 10/15 minutes.

The cost of transporting cut , assorted and special machines work done parts to the spoke even if they are 100 kilometres away , will be less than 10% of transporting the workers from villages to one single factory over 25 to 30 kilometres.

If Government can identify villages with over 300 to 400 working age group persons willing to work so as to find at least 200 /300 willing to work as tailors and build a 5000 to 10000 square feet building meeting compliance standards and rent it to garment makers, the Garment maker can identify a town with social infrastructure in the middle of the various small factories and create the Hub.

Typically one Hub can support upto 10 spokes will provide employment to 3500 persons close to their home , without disrupting the family life , without creating ghettos in towns , improving the cleanliness and hygiene of the villages using the workers who have experienced the advantages of cleanliness and hygiene to be the ambassadors and foot soldiers.

One such module will produce 300 to 400 crores of Garments much more economically than one large factory, even without subsidy.

Conclusion

1. Textiles have small optimal cost capacity, this fact needs to be appreciated and taken advantage
2. If capacity based incentives instead of total capital cost based incentives are provided true competitiveness will become evident, there will be more start-ups in Textile exports
3. Capital invested based incentives has encouraged large scale over invoicing and increased potential NPAs among textiles
4. Spoke and Hub Garmenting will result in lowest cost garment making.

   There can be a cluster of Hubs to foster cluster benefits in agricultural areas
5. Marketing is best left to independent marketing companies/ buying houses
6. If the manufacturing company grows to a size that it can have its own brand / its own export marketing, it should be allowed to grow BUT with no special incentives. Incentives based on Capital employed distorts the true competitiveness and becomes counterproductive in job creation and geographically inclusion with respect to job creation

Disclaimer – The author runs a large Textile company with 250 Million US$ turnover, with ambitious growth plans and would typically benefit from Capital cost based incentives.

Note: This article by **Shri Manikam Ramaswami**, Chairman cum Managing Director of Loyal Textile Mills Ltd. and Past Chairman of TEXPROCIL presents an expert's view on an important issue in textile/clothing sector. The Council encourages all its Member exporters to contribute such knowledge articles in this ENewsletter as a means for exchange of Textile Intelligence.

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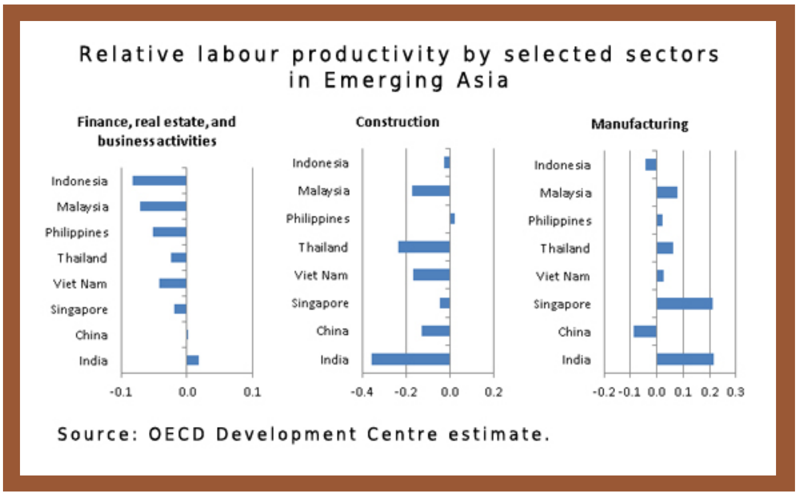
SPECIAL FEATURE

Productivity growth slows in Emerging Asia

OECD REPORT

Real GDP Growth in the Emerging Asia region (Southeast Asia, China and India) shows mild moderation but will remain robust at an average rate of 6.5% real gross domestic product (GDP) growth in 2015. In the medium term, growth in the region is projected to average 6.2% per year over 2016-20, according to the most recent Medium-Term Projection Framework for this edition of the OECD Outlook (MPF-2016). This is noticeably below the 7% rate of growth over 2011-13, due mainly to China's slowing growth. The growth slowdown in China will also place downward pressure on growth in the rest of the region.

The ten ASEAN countries together are projected to grow at 4.6% in 2015 with an annual average rate of 5.2% over 2016-20. In general, the Southeast Asia region will maintain a favourable growth performance in the medium term.



Productivity growth slows in Emerging Asia

The Emerging Asia region will face the challenge of slowing productivity growth. These trends showing a slowdown of growth in GDP and productivity are evident even from before the global financial crisis. At the aggregate level, potential GDP declines in ASEAN economies, China and India after the global financial crisis of late 2000s. The decline in productivity is one of the factors contributing to the slowdown. However, the extent of slowdown differs across countries and sectors.

Slowing productivity growth in the post-crisis period has not been spread evenly across all sectors of the Emerging Asia economies, with some areas more seriously affected than others. The financial sectors in particular of most of the largest economies in the region (ASEAN-5, Singapore, China and India) have been affected. With the exception of India and China, the productivity of financial activities relative to a country's average productivity has fallen between the periods before and after 2007.

Construction sector productivity similarly has grown relatively slowly, except in the Philippines. Relatively poor growth rates have also been seen in agriculture, hunting, forestry and fishing, and in community, social and personal services in most countries.

The manufacturing sectors of several countries, on the other hand, have been relatively resilient. Manufacturers' productivity growth has exceeded the national average growth rates of the region's largest eight countries with the exception of Indonesia and China. Results in other key sectors have been mixed.

Improvements in productivity are essential to drive continued economic growth in Emerging Asia's wealthier economies. While their GDP growth rates have been impressive, many emerging economies around the world have seen slowing or stalled rates of growth as they have approached the levels of high-income countries. This so-called "middle-income trap" results from the difficulties faced by economies in transitioning from previous growth strategies – such as those based on structural transformation, demographic change and factor accumulation, which naturally face limitations – to more sustainable productivity-driven growth and the development of technologically intensive economies.

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TRADE NOTIFICATION

MEMBERSHIP SATISFACTION SURVEY

Dear Member,

The Council has recently obtained ISO-9001:2008 Certification. As part of the ISO documentation concerning 'Customer Satisfaction' we are seeking feedback from our Members on the services offered by the Council. Accordingly kindly fill in your complete information below and respond to the questions below by tick (✓) marking appropriate response in the space provided or with suggestions in brief wherever necessary. We value your association with us and prompt feedback.

COMPANY INFORMATION

Name of the Company	:	
Contact Person & Designation	:	
TEXPROCIL Membership (RCMC) No.	:	
Email Address & Website	:	

1) **Kindly rate the following services offered by Texprocil on rating of 5 to 1. in order to serve you still better.***
5= Excellent, 4=Good, 3 = Satisfactory, 2 = Needs Improvement., 1 = Not Availed (N.A.)

Membership	**Rate Here**	**Trade Development**	**Rate Here**	**Trade Promotion**	**Rate Here**	**Trade Services**	**Rate Here**	**Trade Intelligence**	**Rate Here**
Procedure for New Membership		Publication: E-Newsletter		Intl. Fairs & Events		Certificate of Origin		Interactive Website	
Membership Renewal		E-serve		Seminars & Workshops		Grievance Redressal Services		E-News Clippings	
RCMC Amendment		Circulation Trade Enquiries Award		MDA/MAI Schemes		Information on Exim policy/Amendment DBK		Information Disseminated	

2) a. Are you generally satisfied with the services actively availed by your company and marked above? **Tick (✓)**	**YES**		**NO**	
b. If you have replied 'no' above, please suggest how the Council can improve the services *(use additional sheet if required)*	**Suggestions:**			
3) How is your company benefitting from the Exhibitions / BSMs being organized by the Council? **Tick (✓)**	Accessing new Markets		Generating additional business	
Others (Pls. Specify):	Making new Contacts (Trade Enquiries)		Any Others	
4) How is your company benefitting from the Export Facilitation services being provided by the Council?	Information on Export Policy / Procedures		Responses to various EXIM queries	
Others (Pls. Specify):	Redressal of Trade related grievances		Any Others	
5) Have you recommended TEXPROCIL Membership to other companies? **Tick (✓)**	**YES**		**NO**	
6) Do you have any other suggestions to offer regarding TEXPROCIL Member Services? *(use additional sheet if required)*	**Suggestions:**			

***Kindly ignore this feedback form, if you have already responded.**

TRADE NOTIFICATION

TEXPROCIL MEMBERSHIP
ANNUAL RENEWAL SUBSCRIPTION

The annual renewal subscription amount for the financial year 2015-2016 (due from 1st April, 2015) is as follows: -

1) **MEMBER EXPORTER** - **RS. 11,450/- (MEM FEES 10,000 + S. TAX 1,450)**

2) **REGISTERED TEXTILE EXPORTERS (RTE)** - **RS. 5,725/- (MEM FEES 5,000 + S. TAX 725)**

Special Discount: Texprocil is announcing a special discount scheme for those who wish to renew their membership for a period of 3 or 5 years as follows:

Period	Membership Fees		Discount Slab	Discounted Fees		Benefit to Exporters	
	RTE	Member		RTE	Member	RTE	Member
For 3 years	15,000	30,000	10%	13,500	27,000	1,500	3,000
For 5 years	25,000	50,000	15%	21,250	42,500	3,750	7,500

[RTEs and Members have to pay service tax on the discounted amount at the rate of 14.5%.]

Note for Members:

Members are also requested to submit the CA Certificate as per the format given below certifying the Export Turnover for the financial years 2013-2014 & 2014-2015 i.e. the amount of actual FOB value of exports of Cotton Textiles excluding Readymade Garments and Handloom Textiles.

Members may note that the eligibility criterion of annual export turnover is minimum Rs. 2 Crore. Those not fulfilling the criteria will automatically be renewed as RTE i.e. Registered Textile Exporter.

RTEs are not required to submit the CA certificate.

Format of Chartered Accountant Certificate to be submitted by Members only:

CHARTERED ACCOUNTANT CERTIFICATE
(on C.A.'s Letter Head)

TO WHOMSOEVER IT MAY CONCERN

This is to certify that M/s. ______________________________ (Name and full address of the Member) having IE code No. _______________ have exported Cotton / Cotton Yarn / Cotton Fabrics / Cotton Madeups (Excluding Handloom Items / Readymade Garments and Silks, etc.) during the financial year 2013-2014 & 2014-2015 as follows:

Sr. No.	Description	2014-2015 (Rs. FOB Value)	2013-2014 (Rs. FOB Value)
1	Cotton		
2	Cotton Yarn		
3	Cotton Fabrics		
4	Cotton Made-ups		
	TOTAL		

(Stamp & Signature of Chartered Accountant)
(Membership No. of Chartered Accountant)
(Firm Registration No. of Chartered Accountant)

PLACE:
DATE:

Note to Members & RTEs whose RCMC is expiring on 31.03.2015:

Please apply immediately for renewal of RCMC with the following documents:

[1] Copy of your Import-Exporter Code (IEC)

[2] In case of Manufacturer Exporter, a copy of Manufacturing Licence

[3] In case of changes in Partners, a copy of revised deed of partnership

[4] In case of changes in Directors, a copy of Form 32/DIR-2 or Board Resolution for those who have resigned or newly appointed.

(For any further queries please write to Mrs. Smita Dalvi on email : smita@texprocil.org)