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IBTEX No. 252 of 2019 — December 27, 2019

US 71.23| EUR 79.18 | GBP 92.66| JPY 0.65

Cotton Market (23.12.2019)		
Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
18756	39200	**70.06**
Domestic Futures Price (Ex. Warehouse Rajkot), December		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
19430	40609	**72.58**
International Futures Price		
NY ICE USD Cents/lb (March 2020)	68.70	
ZCE Cotton: Yuan/MT (May 2020)	13,365	
ZCE Cotton: USD Cents/lb	86.65	
Cotlook A Index – Physical	**77.65**	

Cotton Guide- The markets have remained consolidated yesterday with lower volumes at 21,614 contracts. ICE March and May contracts remained unchanged [almost]. We have the export sales data to be released this evening. They have been very strong in the past few weeks. With the lower amount of volumes seen in the last week, we do not expect the Export sales data show higher numbers. Also with the end of the year, prices [as indicated in our earlier reports] should not show higher volatility but can emanate slow movements [with the exception of speculators squaring off their positions to keep their books clean for the New Year].

While speaking on the long term perspective [next three months], it is presumed that the ICE Prices should rise. With the US Crop almost completely harvested and with a good percentage already sold, with Asian countries [excluding China] buying constantly from US, with demand

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being constant, and with the impending US China Trade deal, the prices are headed for a definite rise. The only bearish indicator we see is the bumper crop in India.

On the MCX front, as predicted yesterday, the prices have recoiled back after hitting a two year bottom. They have recoiled in the same intensity with which they had shown a decline with December closing at 19160 [+210] and January 19430 [+170] [Prices are Rs per Bale]. The volumes and open interest have shifted from December to January making MCX January the most active contract.

The cotlook index A has yet not been updated and is still at 77.65 cents per pound. Prices of Shankar 6 in India are also unchanged at 39,200 Rs per Candy.

On the technical front, in daily chart, ICE Cotton March price has witnessed a broad Inverse Head & Shoulder pattern, along with bullish flag breakout formation. However, price would look to test the resistance of 69.50 (61.8% Fibonacci extension level). Meanwhile, price is above the daily EMA (5, 9) at 68.52, 68.01 with a positive crossover acting as an immediate support for the price. The momentum indicator RSI is at 68, also supports the bullish bias. The immediate support would at 68.00/67.32 (9 day EMA & 38.2% Fibonacci extension level). Thus for the day we expect price to trade in the range of 69.50-68.00 with a sideways to positive bias. In MCX Dec Cotton, we expect the price to trade within the range of 19000-19250 with a sideways bias.

Compiled By Kotak Commodities Research Desk , contact us : mailto:research@kotakcommodities.com or can contact: allwyn.stewart@kotakcommodities.com, Source: Reuters, MCX, Market source

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INTERNATIONAL NEWS

The bluff of free trade: Trump's trade wars expose an abiding truth

The bluff of free trade, first called in the 19th century by an industrialising America against Britain, lies exposed yet again as China aspires to be the 21st century's new hegemon.

As the year ends, a partial and brief ceasefire seems imminent in Donald Trump's trade war on the world. The US and China may sign a deal as early as next month. But make no mistake: The protectionist impulse behind the trade war remains as ineradicable as ever. Nor should it be forgotten that economic nationalism has guided the destiny of all major nations since the 19th century. According to the ideological prejudices of the present, built up over four decades of globalisation, free trade and deregulation represent the natural order of things. History, however, tells us that the US was a protectionist power for much of its existence, and the tariff was a crucial factor in its dethronement of Britain as global economic leader by the early 20th century. As William McKinley put it in 1890: "We lead all nations in agriculture; we lead all nations in mining; we lead all nations in manufacturing. These are the trophies which we bring after 29 years of a protective tariff."

The argument for economic nationalism against a manufacturing giant such as Britain was simple. British free-traders claimed that their ideology was best placed to bring prosperity and peace to the world. Their critics in countries less economically advanced than Britain, such as Germany's Friedrich List, the 19th century's most influential economic theorist, argued that free trade could only be a goal rather than the starting point of modern development. Economic self-strengthening for nations required they protect their nascent industry until it becomes globally competitive.

Notwithstanding Britain's rhetoric, which periodicals like the Economist amplified, it had arrived at free trade after a successful policy of tariffs. It also used military power to acquire foreign markets for its surplus goods and capital.

In the late 19th century, one aspiring power after another set out to match the British; the Americans were not alone. Italy, while seeking to modernise its economy, imposed massive tariffs on France. Germany and Japan nurtured domestic manufactures while trying to shield them from foreign competition. Even Britain, following its settler colonies Australia, Canada and South Africa, came to abandon free trade by 1932. The US's protectionism peaked with the infamous Smoot-Hawley Tariff Act of 1930. The US moved swiftly to embrace free trade after the Second World War only because its manufacturing industries, dominant over the world's war-ravaged economies, needed access to international markets.

Even then the Cold War's military and diplomatic urgencies turned the US into an unlikely protector of Japan's manufacturing industries as they were rebuilt into world-beaters. Trade practices of the kind deemed unfair by Trump today—from loans and subsidies to national conglomerates and restriction of imports—were key to the rise of not only Japan but also such East Asian "tigers" as South Korea and Taiwan.

Trying, albeit much less successfully, to build a manufacturing economy, India imposed some of the world's highest tariffs. After a short-lived experiment with trade liberalisation, which resulted in a $53 billion trade deficit with China, India today has retreated into its old protectionist crouch. The rise of China as a manufacturing powerhouse has made even the US renounce the posture of international cooperation it assumed after the Second World War. Multilateral institutions such as the WTO that the US helped set up no longer seem to serve its purposes. Moreover, the argument, first widely heard in the US during the debate over NAFTA in the 1990s, that free trade enriches the wealthy at the expense of the poor and the middle class, not to mention the environment, has become politically much more potent.

It is clear the advocates of free trade ignored for too long the volatile political problems rising from wage stagnation and income inequality. Upholding the economic law of "comparative advantage," they also managed to downplay the higher law that governs international economic relations: might is right. Following the British "imperialism of free trade," powerful countries have practised what they denounce in others. For instance, the US, while insisting that other countries reduce state intervention, has nurtured high-tech industries in ways that violate WTO agreements.

The bluff of free trade, first called in the 19th century by an industrialising America against Britain, lies exposed yet again as China aspires to be the 21st century's new hegemon. Free trade turns out to be something that helps a rising great power, until it doesn't, and which most countries claim to practice while trying to subvert its principles as much as possible.
Trump's trade wars are, of course, dangerously reckless in a world more interconnected than ever. But they have served to clarify the challenge ahead: to devise multilateral institutions that acknowledge protectionism rather than free trade as the deeper and more enduring reality of global economic history.

Source: financialexpress.com- Dec 27, 2019

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Pakistan: Measures sought to promote industrialisation

Textile exporters on Thursday urged the government to take measures for kickstarting industrialisation as exports growth remained tepid during the July-November period of this fiscal year.

Appreciating the 33 per cent drop in trade deficit to $9.496 billion from $14.47bn during the first five months 2019-20, Pakistan Textile Exporters Association (PTEA) Chairman Sohail Pasha noted that the decline was mainly contributed by sharp reduction in imports.

"Our exports have fallen by 0.67 per cent in November over the preceding month while average rise in exports in first five months is less than 5pc, indicating that achieving the export target will be pretty tough this year," said Pasha, according to a press release issued by the association.

For the first time in 15 years, country's imports continue to decrease, the PTEA chief noted. However, low export volumes are still a major issue for economic growth. Lack of diversification in products and export destinations along with high cost of doing business are among the key factors behind low exports.

Pasha said that despite extreme crisis, textile industry remained the most export-oriented sector of the economy in last decade with a 60pc share in country's export revenues. However, stagnating textiles exports have been a consistent cause of concern for the economy.

Challenges like stuck up liquidity, high priced energy inputs and imposition of duties and taxes on inputs and raw materials are adversely impacting production, employment and exports, the PTEA press release said.

"Although the government has taken exemplary drives to address the issue of outstanding refunds by liquidation of sales tax refund claims, still huge amounts are stuck in income tax, custom duty drawback and textile policy incentive regime," Pasha said.

Source: dawn.com - Dec 27, 2019

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Pakistan Textile growth stalemate continues

Textiles sector despite being the main headache for our economic planners leads our exports as its exports in the first five months of this fiscal were $5.76 billion, equivalent to 60 percent of our total exports of $9.54 billion.

A look at the performance of its subsectors that cumulatively account for 90 percent of total exports in this sector reveals the exports in all these sectors remained volatile during the year 2019.

The six major textile subsectors are yarn, fabric, readymade garments, knitwear, bead wear, and towels.

The export performance of yarn remained erratic in entire 2019. In February this calendar year its exports were $108.36 million. During the year they crossed $100 million mark -in April, May and August. In November the yarn exports were only $98.5 million. In the same way the exports of cotton cloth were also disappointing.

Fabric exports remained higher in March at $181.3 million. The only other month when $180 million barrier was breached was January. In November fabric exports were only $168.3 million.
Readymade garments exports in January were $256.3 million and in November a little lower at $250.6 million. Knitwear sector was the star

performer during 2019 starting with exports of $248.5 million in January and ending in November at $266.8 million. It breached the $270 million barrier thrice in past 9 months. On the other hand, bed wear exports remained stagnant in true sense. Starting January 2019 with $193.3 million, its exports reached $195 million in November. It crossed $200 million barrier twice and $210 million milestone once in the year.

The exports of towels similarly remained depressing, fluctuating $54.7 million in June 2019 to $472.5 million in May 2019 and were $65 million only in November.

A month ahead of the close of the year, the textile exports, from January through November 2019, stood at around $12 billion and may reach $13.5 billion by the end of December. This is the same export figure achieved in 2012-13 or around 5 percent higher than the textile exports last fiscal.
This export is 2.5 times less than the textile exports of Bangladesh or Vietnam.

The 11 month performance of textiles does not offer much hope for future. Many capacities in various textile sectors have closed down. There are no chances of their revival. The exports attained in 2019 at a very low per unit price mean we have attained our maximum productivity in most sectors. We now simply do not have any export surplus to boost exports. The industry is sitting on obsolete technology and is inefficient. The question is as to why our overall exports and textile export particularly are stagnant? The story is not as simple as that. The exports in this sector have remained stagnant since 2012-13 going down in some years along with our total exports.

The textile story, in fact, is the same for over a decade. The sector is dominated by the spinning sector that though accounts for only 40 percent of textile exports but has a greater say in influencing the government policies than the value-added sectors. Basic textiles flourished on government facilitations and subsidies and continue to look for any possible dole-out even at a time when the government doesn't have resources for that.

The pampered basic textile sector did not let the high-value-added apparel sector to grow to its potential that is definitely higher than the combined export potential of Bangladesh and Vietnam. The combined textile exports of Bangladesh and Vietnam are touching $60 billion per annum compared with average textile exports of $12.5 billion from Pakistan.

We have textile tycoons in the basic textile sector, while in the value-added textiles the exports are dominated by small players. There are thousands of exporters managing exports of less than $1 million per year. They need to scale up through bank credit. Almost 90 percent of the bank finances go to yarn and fabric sectors and rest to the value-added sectors that account for 60 percent of the textile exports.

When the present regime announced special and low energy and power tariffs for textile sector and few other exporting sectors in the last quarter of calendar year 2018, it was presumed the exports would shoot up to historic highs in 2019. Besides low power and energy tariffs, the textile package announced by the previous government also offered special refunds to those exporters that increased their textile exports by 10 percent over the previous year. Another positive was the massive decline in rupee value. This provided Pakistani textiles the competitive edge they were looking for a long time.

The labour cost of exporters also declined appreciably in dollar terms. Labour wages in Pakistan are slightly higher than Bangladesh. Two years back our labour cost was also double than that of Bangladesh. Still the textile performance has left much to be desired.

The entrepreneurs lack marketing skills and only a few exporters have stable and permanent buyers. Quality is not the issue, nor is the price. In fact per unit rates in all subsectors of textiles are the lowest in Pakistan, compared with the competing economies. Exporters are paying a premium because of the negative perception of their country abroad.

The present regime is banking on substantial increase in exports to narrow down the trade deficit. In real terms the textile exports have remained stagnant in last six years. During the same period the textile exports from Bangladesh and Vietnam increased at a compound rate of over 7-10 percent. Our share in global textile trade has declined from 2.2 percent at the start of century to less than 1.70 percent.

Exports increase when new efficient capacities are added. The situation in this regard is very disappointing. If we look at the technology investment of China, India, Bangladesh, and Pakistan in last one decade, we find we are not even close to Bangladesh in adding new machines.

Data from International Textile Machinery Federation reveals from 2008-09 till 2016-17 China added 46.2 million spindles, India 20.2 million, Bangladesh 3.75 million, and Pakistan installed only 2.45 million new spindles. So we were way behind even Bangladesh in spindle technology upgrade.

Shuttle-less looms that weave fabric reveal even a more disturbing reality. From 2008-09 till 2016-17 the Chinese added 427,000 shuttle-less looms, India 89,000, Bangladesh 41,000, and Pakistan added only 7,600 shuttle-less looms.

Now having way higher fabric producing capacities, why would the Chinese, Indians, or Bangladesh import fabric from Pakistan? One more thing worth noting is that Pakistan gained market in value added-apparel in the European Union but at the same time lost substantial knitwear market in the United States. That sort of balanced out the gains that were being made in Europe. In apparel and knitwear the entrepreneurs have utilised the equipment of sick units and have not added new technology.

Source: thenews.com.pk- Dec 27, 2019

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Bangladesh: RMG businesses demand 5pc tolerance in yarn count in ports

Country's apparel exporters have demanded 5 per cent tolerance in yarn count during the release of the item imported for the export-oriented readymade garment sector and easing the system of temporary bond transfer between factories in export processing zones and those of outside EPZs.

Leaders of the country's textile sector on Monday hold a meeting with National Board of Revenue chairman Mosharraf Hossain Bhuiyan on the issues and also demanded tax waiver or reduced rate for the import of racking system for establishing modern bonded warehouse.

Bangladesh Garment Manufacturers and Exporters Association president Rubana Huq, Bangladesh Knitwear Manufacturers and Exporters Association's acting president Mohammad Hatem and Bangladesh Textile

Mills Association president Mohammad Ali Khokon attended, among others, the meeting held at the NBR office in the capital.

Exporters said that they had faced penalty and harassment during the release of imported yarn and fabric if minor deviation was found in count and composition of the items.

Exporters demanded 5 per cent tolerance for cotton yarn count and 10 per cent for viscos during the examination by customs saying that minor deviation in yarn count and composition might be occurred due to weather and suppliers' faults.

Apparel exporters demanded easing of temporary bond transfer system between the factories in EPZs and those of outside EPZs, saying that approval for inter-bond transfer was required for the exporters to do subcontract business with the EPZ factories.

Getting approval for inter-bond transfer from customs bond commissionerate is a lengthy process but exporters get limited time to export the products to the buyers, they said.

Exporters demanded empowering the BGMEA to issue approval for inter-bond transfer between the factories in EPZs and outside EPZs to protect the interest of readymade garment sector.

RMG exporters said that establishing a modern bonded warehouse system was very much important to fulfil the compliance requirements provided by the buyers and racking system was a must to do so.

The present duty structure is high for the import of racking system and it would not be viable for the exporters to import the system with paying 58.60 per cent duty, they said.

Apparel makers demanded tax waiver or reduced tax rate on import of racking system, saying that the sector could gain more export orders by introducing the system as rack-supported warehouses help preserve maximum products within the shortest spaces separately and locate them easily.

'We also discussed the delay and harassment by custom officials in ports during the release of raw materials for the sector,' Hatem told New Age on Thursday.

He said that the NBR chairman agreed in principle to their demands and assured them of taking necessary steps to facilitate exports.

Source: newagebd.net- Dec 27, 2019

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Myanmar, a promising investment destination

As the Myanmar economy opens up, it offers access to various sectors wherein India can boost trade and investment

Myanmar recently saw the entry of foreign private insurance companies into the country, along with Singapore-based transport services company Grab. India, which has expressed its desire to have greater integration under its new 'Neighbourhood First' policy, should literally have Myanmar as its first port of call. Myanmar today is one of the last frontier markets in Asia.

Though both countries have been in engagement for several years, the results have not been significant in terms of cooperation in trade and investment. Despite having a common border of more than 1,600 km, Myanmar imports a mere 5-6 per cent of its overall import requirements from India, whilst importing more than 30 per cent from China alone. Regarding exports from Myanmar to India, the country can actively explore opportunities under India's DFTP (Duty Free Tariff Preference) scheme.

Given that there is not always strong competition across sectors, local knowledge and market positioning can be gained by early movers and can provide a significant competitive advantage to India.

Socio-economic infrastructure

The headroom for infrastructure growth in Myanmar is very high. However, India's share in the total envisaged investments into Myanmar from 2011 to September 2019 stands abysmally low at 3.7 per cent. India's highest investments have been in Myanmar's coal, oil and gas sector, which again is just 6 per cent of the total envisaged investment.

Given Myanmar's LDC (least developed country) status, it benefits from the WTO's zero tariffs on exports, as well as the EU's 'Everything but Arms' scheme, which grants unilateral duty-free, quota-free access for all exports to the EU. Indian investors can use this — apart from its engagements with ASEAN partners — to set up a base in Myanmar to explore other destinations.

In sectors such as renewable energy, hotels and communication, India has ample scope to contribute but does not find mention in the list of Myanmar's FDI sources. With less than 40 per cent of Myanmar's population having access to electricity, Indian solar manufacturers and power suppliers can explore this market, especially in the off-grid solar arena.

After Myanmar opened its economy, telcos Telenor and Ooredoo from Norway and Qatar, respectively, entered the virgin market — previously monopolised by MPT — and slashed tariffs. As the Indian telecom market gradually saturates, there is scope for participation in Myanmar.

Healthcare and education are two other sectors where India can make long-term contributions, thereby creating goodwill amongst the neighbour. The present dispensation in Myanmar plans to provide universal health coverage by 2030, allocating 5.2 per cent of its total budget to the healthcare sector. Education too has been a focus area, with the government allocating 8.5 per cent of its spending.

Tourism is another area that India can explore, by providing quality yet affordable services utilising the soft skills of the locals.

FMCG opportunity

An estimated 30 million people will be in the middle-class category by 2030. This opens a plethora of opportunities in the consumer goods market. According to Nielson, the value of the retail sector in Myanmar stood at around $10-12 billion in 2018. This has prompted many foreign consumer brands to enter the country.

But unfortunately, the presence of Indian products is dwarfed by those imported from far-off economies. With increasing consumerism, especially in Yangon and Mandalay, the Indian consumer goods industry should increasingly explore this market with affordable products. For example, home-grown MNCs could set up base or supply across the border. Well-recognised brands like Amul and Mother Dairy can easily make inroads into the market for processed milk products, which the people of Myanmar in general are fond of.

Entry in the consumer goods market is a low hanging fruit, but dividends in terms of public perception and good-will is multi-fold

Beyond rhetoric

For long, India and Myanmar have been going overboard over cultural ties. However, such ties need to give fillip to real business as well.
Myanmar is the gateway to the Mekong region and is the only ASEAN nation linked through land and sea to India. It is also amongst the few in the region, like India, which does not support China's Belt and Road Initiative. The governments of both the countries should work towards removing the hurdles so that the synergy drawn could be translated into businesses.

Investors should increasingly look at the benefits of the existing tax incentives/holidays, SEZ facilities, and LDC benefits available in Myanmar.

While India has decided to postpone signing the RCEP and is also looking to renegotiate its FTA with ASEAN, both India and Myanmar must work seriously towards enhancing trade and investment.

The author is Senior Economist with EXIM Bank, India. Views are personal

Source: thehindubusinessline.com- Dec 26, 2019

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Myanmar Garment exports on track to meet 10-year target

Myanmar is on track to meet its target of drawing US$10 billion worth of textile exports by 2024, an official from the Myanmar Garment Entrepreneurs Association (MGEA) told state media.

The target was set as part of Myanmar's ten-year export strategy in 2014. During fiscal 2018-19, the textile manufacturing sector generated US$4.6 billion in export revenue, making up nearly 10 percent of the country's export revenues, according to the Ministry of Commerce.

This fiscal year, officials are expecting textile export revenues to reach US$5 billion. Myanmar exports its garments and textiles mainly to Europe, Japan and South Korea. Currently, the industry's earnings average US$300 million per year.

If manufacturers make a shift from the Cut, Make, Pack (CMP) production system to a free on board (FOB) system, annual earnings could swell ten-fold should demand remain at the current level, the MOC said.

Under a CMP system, all raw materials, such as fabric and buttons are imported by the local factories, which then assemble the garments for export.

Under an FOB system, the exporter quotes the a price that includes all costs, including delivery of goods aboard an overseas vessel. The local factory is responsible for the whole production process.

Under the export plan, employment in the industry is also expected to hit a million workers by 2024. The MGMA estimates that around 600 factories in the country now offer job opportunities to approximately 500,000 workers. The boom in Myanmar's clothing and textile industry comes at a time when wages in other regional production hubs such as Vietnam and Cambodia have risen, driving manufacturers to cheaper nations.

At K4800 a day, the minimum wage in Myanmar is among the lowest in Southeast Asia.

Source: textiletoday.com.bd- Dec 23, 2019

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Bangladesh should grab next year with both of its hands

I have recently written articles focusing on two of Bangladesh's competitors in the global apparel sourcing industry: Vietnam and, to a lesser extent, Ethiopia. I believe it is healthy to discuss the competition and hopefully all these countries can together spur each other onto greater things.

But what about Bangladesh? How can our merits be judged in isolation? Much has been written about Bangladesh in recent months, with concerns some is that growth in ready-made garment (RMG) exports might have plateaued. Some even fear we could be set for a downward trend.

I am not convinced. In assessing Bangladesh's merits and future prospects, I believe two major issues must be factored in. The first is safety and compliance.

It is difficult to overstate the importance on which the international apparel retailers place factory safety and compliance at the current time. To offer some perspective here, consider that just recently there was a tragic factory fire in New Delhi, India, killing more than 40 workers as they slept. This fire took place in a multi-storey factory building, which is said to have been housing garment production on at least one of the floors. There are suggestions that this fire was caused by a short circuit because various outlets were all attempting to draw power from the same source. It was an accident waiting to happen.

Another competitor, Pakistan, has been beset with similar safety and compliance issues in its textile industry. While I understand that there are plans to introduce a safety initiative in Pakistan – called the Life and Building Safety (LABS) Initiative, developed by the Dutch Sustainable Trade Initiative IDH – rights groups have already said this initiative lacks teeth because there is no union participation or brand accountability. This same initiative is being introduced in Vietnam.

Both these and other garment manufacturing hubs are about to find out how incredibly difficult and complex it is to drive safety improvements across a whole industry. It takes money, time, resources and extremely hard work as well as a huge amount of political goodwill. There are no short cuts when it comes to factory safety. To that end, Bangladesh is way ahead of the pack. It has the trust of international apparel brands because it tackled safety issues head-on in the wake of the Rana Plaza disaster via the Bangladesh Accord and Alliance. It will take several years for competitors to catch up in these areas. In the meantime, Bangladesh can continue to make major strides in other areas. Indeed, it is already doing so in areas such as technology upgrades, circularity, sustainability and by broadening its product mixture.

The China issue

The second factor standing in Bangladesh's favour is the China issue. There were some very interesting figures out just recently that showed that textile and apparel exports from the US to China have declined rapidly in the past year.

The figures show that in terms of value, Chinese exports of apparel and textiles in the year to date for October 2019 were 5.6 percent down on the corresponding period for October 2018. In terms of units sold, there was a 2.2 percent decline. The figures show how the ongoing trade war is hitting Chinese exports to the US. Indeed, since the start of the Trump presidency, brands such as Uniqlo, Levi's, Crocs, Calvin Klein and Tommy Hilfiger have shifted manufacturing out of China and many major factories in Bangladesh are benefiting from this shifting landscape.

In the same period, textile and apparel exports were up by 10 percent from Bangladesh to the USA. This is a remarkable jump. What is most exciting here from a Bangladeshi perspective is that many economists expect this extra trade to stick to Bangladesh. Why? Well, it has become clear in recent months that brands are sick and tired of the trade war between the US and China, which has now gone on for almost 18 months. They cannot afford to wait around while these two countries sort out their differences and so are heading out of China for good.

Viable alternative

There is clear evidence that many US brands see Bangladesh as the next best bet. Ralph Lauren is the latest US brand to make a major commitment to Bangladeshi sourcing. Brands see Bangladesh as a viable alternative to China because, as well as being a leader in safety and compliance, training of the workforce of the future here is world class, while many RMG operators continue to import new and expensive machinery. We also have diversity of product portfolio – from denim to jumpers, to shoes and T-shirts. Could we diversify more? Of course, we could. But I believe brand creators recognise the strides that continue to be made by Bangladesh's RMG sector and have faith that factories here are investing in the future.

Brand creators also recognise that, unlike its main rivals, Bangladesh has done most of the hard work where safety and compliance is concerned. Factories here have had to make huge investments in this area, often on very expensive remedial works. Now that much of this capital outlay has been undertaken, factories are free to invest in other areas – sustainability, value-adding technology and other areas that will enable factory owners to gain an edge on their international competitors.

As we head into 2020, then, let's all focus on the many positives in our RMG industry and stop getting bogged down in issues that are beyond our control. The global apparel industry is in a state of flux, with the fall-out from China's declining market share becoming clearer by the day.

Huge swathes of business are there for the taking and Bangladesh is more than capable of handling them. Let's grab this opportunity with both hands.

Source: khmertimeskh.com- Dec 26, 2019

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European: EuRIC calls for a progressive strategy on textiles

The European Recycling Industries' Confederation (EuRIC) has called for "an ambitious strategy on textiles" which will include extended producer responsibility legislation and incentives to boost end markets.

The call was made by the EuRIC's newly created Textiles Recycling Branch, and called on the European Commission to introduce a strategy to "render textiles circular throughout the value chain".

According to EuRIC, the development of 'fast fashion' has deeply changed textile consumption patterns across the world, which has impacted the clothing recycling sector.

The confederation explained that while EU law obligating authorities to separately collect textiles by 2025 will increase the supply of used textiles, it means there is a need to complement this with "equally ambitious measures aiming at pulling the demand for re-use and for material".

SCAP

The call from EuRIC comes as resources charity WRAP today, 19 December, released an update on its Sustainable Clothing Action Plan (SCAP) 2020, launched in 2013 aiming to reduce carbon, waste and water reductions.

Under the commitments, signatories pledged to reduce carbon, water and waste to landfill by 15% alongside a 3.5% reduction in the amount of waste arising per tonne of clothing by 2020.

Today, WRAP said that while water and carbon targets have been achieved, there has only been a 4% reduction in waste going to landfill since 2012 and more clothes are being made, signalling that "more work is needed".

Commenting on the progress of SCAP, environment minister Rebecca Pow said: "WRAP's report shows some of the country's biggest clothing brands and retailers are making real progress in making their industry more sustainable. The Sustainable Clothing Action Plan is a great way for the textiles industry to come together and do more to protect our precious natural environment, and we will continue to work with everyone involved to take forward this initiative.

"But there's much more to do, in particular, reducing the amount of clothing that goes to landfill. That's why this government is committed to protecting the environment and tackling climate change by cutting waste and using resources more sustainably through plans set out in our landmark Resources and Waste Strategy."

Source: yarnsandfibers.com- Dec 27, 2019

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Pakistan: PTEA appreciates 33pc significant drop in trade deficit

The Pakistan Textile Exporters Association (PTEA) has appreciated 33% significant drop in trade deficit; however urged for measures to steam up industrialization and boost exports as growth in exports has remained tepid during July-November period.

In a statement here on Thursday, PTEA Chairman Sohail Pasha hailed the sharp fall in trade deficit during July-November to US$ 9.496 billion from US$14.47billion in the same period last fiscal year. However, he pointed out that this decline in trade deficit is mainly contributed by import side not from exports, as growth in exports remained tepid.

Quoting the official figures he said that exports have fallen by 0.67% in November over the preceding month while average rise in exports in first five months is less than 5 percent, indicating that achieving the export target will again be toughest this year. For the first time in last 15 years, imports are decreasing but low export volumes are still the issue for the country's economic growth. Lack of diversification of export destinations and products and high cost of doing business are among the key factors behind low exports, he added.

PTEA Chairman expressed that despite extreme crisis, textile industry remained the most export-oriented sector of the economy in last decade with its 60% share in country's export revenues; however stagnating textiles exports have been a consistent source of concern for the economy. Challenges like stuck up liquidity, high priced energy inputs and imposition of duties & taxes on inputs / raw materials are adversely impacting production, employment and exports.

Although Government has taken exemplary drives to address the issue of outstanding refunds by liquidation of sales tax refund claims; however still huge amounts are stuck in income tax, custom duty drawback and textile policy incentive regime.

Appreciating the launch of FASTER module for expeditious payment of sales tax refunds to exporters, he stressed for immediate simplification of Annexure H.

He said that in order to promote investment in export oriented sectors and turn Pakistan into an export-led economy, the State Bank of Pakistan had announced to enhance financing limits for exporters under subsidized loan schemes including Export Finance Scheme (EFS) and Long Term Finance Facility (LTFF); however, the same has not yet been implemented.

Source: pakobserver.net- Dec 27, 2019

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Manufacturing sector stares at another challenging year

Thanks to the Government's stimulus package, the demand for steel and cement has shown signs of improvement in last two months

The manufacturing sector, which is just emerging out of an historic slowdown, is in for yet another challenging year in 2020, with the banking sector tightening credit flow, and the government cutting its spending on infrastructure projects.

While the Reserve Bank of India (RBI) claims that bank loan to corporates and individuals in November have grown 7.9 per cent year-on-year, it was up only 0.43 per cent to Rs 97.67 lakh crore between March and November. This is despite liquidity of Rs 2 lakh crore in the banking system, after series of repo rate cuts of up to 110 points by RBI since April.

Thanks to the Government's stimulus package, the demand for steel and cement — a key indicator of economic activity — has shown signs of improvement in last two months, resulting in steel prices going up by ₹3,000 a tonne.

Given the firming steel prices globally and signs of green shoots in the domestic markets, companies are already contemplating a third price hike in as many months, and the price is expected to go up by ₹1,000 a tonne in January.

Seshagiri Rao, Joint Managing Director, JSW Steel, said that the demand in last two months were good largely due to restocking by dealers. Most of the dealers, who were waiting for the prices to fall further to restock suddenly started buying once they saw global prices moving up, he added.

Banking on sops and stimulus

The manufacturing industry is banking on the cut in corporate tax and lower lending rates to boost demand next year.

However, Rao said the transmission of the multiple repo rate cuts by banks to corporates and end-consumers is still not happening. Banks clearly do not want to lend to highly leveraged sectors such as steel, and the economic revival will sustain only if the credit flow improves, he added.

The demand for steel from the auto sector — one of the largest consumers of steel — has improved, even though auto sales slipped eight per cent in November, after a recovery during the festival season.

Hit by an unprecedented slowdown, automobile sales in July dropped 19 per cent, recording its worst-ever fall in 19 years. Similarly, the passenger vehicle sales growth also plunged to 19-year-low, and recorded 31 per cent fall to 200,790 units in July.

Amid slowing demand, the auto industry is gearing up to meet Bharat Stage-VI norms from April. The government had extended a helping hand by allowing all BS-IV vehicles purchased up to March 2020 to be operational till their period of registration. It also postponed the proposed increase in the one-time vehicle registration fee to June.

The demand for white goods may also hit a bump, due to credit constrain and high interest rate. The job losses across various sectors on the back of the economic slowdown may also have its impact on white good sales in the coming year.

The bleak prospects of Micro, Small and Medium Enterprises (MSME), which usually depend on large croporates, is reflected in the growing stress in the Pradhan Mantri Mudra Yojana. As of March, 2019, Scheduled Commercial Banks and Regional Rural Banks have disbursed ₹6.04 lakh crore Mudra loans since the inception of the scheme. Of the total lending, 2.96 per cent or about Rs 17,252 crore had turned non-performing assets.

Infrastructure woes

Cement demand witnessed a significant fall in 2019 due to muted infrastructure activities, heavy rainfalls and liquidity crunch.

The demand for cement is expected to recover gradually, and softer input costs will help cement companies in the near term.

The infrastructure sector has witnessed tremendous pressure as the award for new projects remained muted across major segments such as roads and railways. The execution of previous orders was also impacted due to extended and heavy monsoon across major parts of the country, along with a delay in land acquisition.

Alok Deora, Senior Analyst, Yes Securities, said that the award of government projects are expected to pick up significantly from the current levels which would provide revenue growth visibility for 2022 and beyond.

Source: thehindubusinessline.com- Dec 26, 2019

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Government exploring alternative incentives for SEZs to make them WTO compliant

The Customs Dept's revamped scheme for manufacturing in bonded zones being considered , says official

With the World Trade Organization (WTO) prescribing withdrawal of prohibited subsidies given to the Special Economic Zones (SEZs) by the middle of 2020, the government is trying to fast-track work on reforming provisions for the zones to make them compatible with the multilateral norms.

One the options before the Commerce Ministry, which is exploring several alternative incentives for SEZ units, is the new bonded manufacturing space scheme that the Customs department implemented earlier this year, an official told BusinessLine.

"Discussions will take place between officials of the Commerce and Finance Ministries to see if some of the provisions of the new bonded manufacturing scheme could be replicated for SEZ units," the official added.

On October 31, the WTO ruled that many of India's export subsidies, including the ones given to SEZs, flouted multilateral trade rules as the country's annual Gross National Income (GNI) had exceeded $1,000

annually for three consecutive years and such countries were not allowed to give export sops. The ruling was based on a complaint filed by the US.
Although India has challenged the panel verdict at the WTO Appellate Body, where work is temporarily suspended, the government wants to get its house in order as soon as possible with members like the US breathing down its neck.

Draw insights

"The Commerce Ministry is trying to draw insights from the revamped scheme for manufacturing in bonded warehouses as it involves exempting manufacturers from paying import duties on inputs and capital goods on items that are exported. As the tax exemptions are on inputs and not income, these are permissible under the WTO rules. For those selling the items in the domestic market, the payment of import duty could be deferred," the official said.
Some experts point out that de-linking the SEZ sops from exports would also make them compliant with the WTO norms. As per the report of the high-level group on SEZs headed by Bharat Forge chief Baba Kalyani, Dominican Republic is a good example of regulatory reforms aimed at eliminating incentives contingent on export performance for entities in the SEZ. The government delinked the minimum export share requirement for various units operating in SEZs in a phased manner. Some studies done of the Dominican Republic model point out that the attractiveness of its SEZs as a destination to export from did not go down with the change in rules.

"One needs to be clear that the WTO ruling prohibiting export subsidies is for the SEZ units and not the developers. Since the WTO prohibits subsidies for exports, if the government revisits the incentives, namely the export-linked tax exemptions, the issue could be addressed. The tax exemption could be linked to investments made rather than export profits," said Hitender Mehta, Managing Partner, Centrum Legal.

No clarity on sunset clause

SEZ investors are in the midst of more uncertainty as there is no clarity yet on whether the government would extend the sunset clause on the income tax exemption under the scheme. According to the sunset clause, the 100 per cent income tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for the first five years, 50 per cent for next five years and 50 per cent of the ploughed back export profit for subsequent five years, will expire on March 31, 2020.

A total of 351 SEZs have been notified so far, of which only 234 SEZs are operational.

Source: thehindubusinessline.com- Dec 25, 2019

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GST Council to set up grievance redressal mechanism for taxpayers

The committee will be constituted for a period of 2 years and the term of each member will be for likewise, says a statement

The Goods and Services Tax (GST) Council will set up a grievance redressal mechanism for taxpayers.

The decision was taken at the 38th meeting of the GST Council held on December 18.

It has decided that a structured grievance redressal mechanism should be established for the taxpayers under GST to tackle grievances on GST-related issues of specific and general nature, an official statement said on Wednesday.

The council will set up the Grievance Redressal Committee (GRC) at zonal and state levels consisting of both central tax and state tax officers, representatives of trade and industry and other goods and services tax (GST) stakeholders.

The committee will be constituted for a period of 2 years and the term of each member will be for likewise, said the statement.

If any member of the panel would be absent for three consecutive meetings, without adequate reasons, the member will be replaced with a fresh nomination by the principal chief commissioner/chief commissioner of central tax in consultation with the chief commissioner/ commissioner of state tax.

Functions of the committee include examining and resolving all the grievances and issues being faced by the taxpayers, including procedural difficulties and IT-related issues pertaining to GST, both of specific and general nature.

The committee will meet once every quarter or more frequently as decided by the co-chairs.

"For time-bound handling of grievances and accountability, GSTN shall develop a portal for recording all such grievances (including their scanned images) and their disposal. It shall be the responsibility of the co-chairs of the grievance redressal committees to ensure timely entry of the grievances and updating the status of their disposal on the portal," the statement said. The details of action taken on all issues will be displayed on the portal, which shall be available for viewing to all stakeholders to check the status of the resolution, it added.

Source: thehindubusinessline.com - Dec 25, 2019

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Solapur garment makers urge government for a new textile policy

The Solapur Garment Manufacturers Association (SGMA) recently urged the Union government to frame a new textile policy that would build India as garment sourcing hub for the whole world. As per SGMA, the new textile policy should promote entrepreneurship in the garment manufacturing sector. It should provide new units with loans of up to Rs 2 crore with interest-free provision for the first three years and subsequent three years with a subsidised interest rate of 4 per cent per annum. This will make them more competitive.

SGMA also urged the government to employ unskilled labor in the industry. It should introduce an on-job training incentive scheme wherein an incentive of Rs 3,500 per labour per month is provided for a period of initial six months.

Further, a provision should be made for a single window clearance system for setting up garment/ textile units and a single nodal officer must make sure that all the licenses and permission are be given within 15 days from the date of application.

The association also urged the government to declare Solapur as the India's Uniform Manufacturing Zone which would make it one of the world's first cities to have unique uniform sourcing hub.

Source: fashionatingworld.com,- Dec 24, 2019

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Khadi Commission to help generate hundreds of jobs; supports artisans, potters to earn more

Skilling, Labour, Talent for MSMEs: KVIC distributed 1,000 bee boxes, 100 pottery wheels and 100 advanced leather tool kits to 100 farmers, 100 potters and 100 leather artisans in Agartala to commemorate 150th birth anniversary of Mahatma Gandhi.

Commission for MSME dominated Khadi and Village Industries — KVIC has distributed 1,000 bee boxes, 100 pottery wheels and 100 advanced leather tool kits to 100 farmers, 100 potters and 100 leather artisans in Agartala to commemorate 150th birth anniversary of Mahatma Gandhi, MSME Ministry said in a statement on Thursday. This capacity-building exercise will help generate employment for 700 people and create a livelihood, according to Chief Minister Biplab Kumar Deb. Programmes including Honey Mission, Empowerment of Leather Artisans and Kumhar Sashaktikaran Mission, said Deb, will give self-confidence and boost the strength of the weaker section of the society. It is an endeavour to reach out to the maximum number of people and help them achieve a life of respect and dignity, he said.

KVI had reported nearly Rs 75,000 crore turnover for FY19 even as the government is looking to double it. "Today we have a good turnover in handloom, handicrafts, and village industries," MSME Minister Nitin Gadkari had said in October adding "we plan to double it" while boosting employment potential. The government is looking to boost the MSME sector's GDP contribution to the country from current 29 per cent to 50 per cent in five years along with creating 5 crore additional jobs in five years to help India achieve its $5 trillion economy target.

"Aligned with the vision of Prime Minister, our endeavour is to provide livelihood opportunities as well as an alternate source of income to the rural farmers and other artisans, who otherwise adopt to menial labour or migrate to big towns or cities for daily wage jobs," said VK Saxena, Chairman, KVIC. Close to 20 per cent of the beneficiaries of the equipment distribution by KVIC were women while around 80 per cent of the total beneficiaries belonged to marginalized communities.

Commerce ministry last month had issued a Harmonized System (HS) code to separate from the general textile products to ease exports. HS code is a six-digit identification code developed by the World Customs Organization and is used by customs officers to allow products to cross international borders.

Source: financialexpress.com- Dec 26, 2019

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NPAs in MSME jumps to 20.7 per cent, says report

Repayment issues, bad loans amid economic slowdown, have caused Non Performing Assests (NPAs) in Micro Small and Medium Enterprises (MSME) sector to rise up by 20.7%, said report.

According to the latest State Level Bankers' Committee (SLBC) report released on Tuesday, non-performing assets (NPAs) in the second quarter went up by 20.7%, growing from Rs 8,526 crore in 2018-19 to Rs 10,290 crore this year.

As per the bankers, the growth is already muted in the economy, and with demand remaining low-key, slowing growth have caused bad loans to rise. The advances in the MSME sector grew merely 11.4%, from Rs 1.15 lakh crore in 2018-19 to Rs 1.28 lakh crore in 2019-20 as the bad loans rose by 20.7% in the second quarter.

MSMEs in sectors including automobiles, auto ancillaries, steel and textiles, are among the worst affected. Liquidity crisis too remain one the reason due to which bad loan rose, blamed Industry players.

Slowdown, forced to stop operations or cut production, which effected working capital. With the liquidity crunch created by the collapse of major Non-Banking Finance Companies (NBFCs), there is a huge vacuum when it comes to working capital financing of MSMEs.

The SLBC report for Gujarat further showed that the percentage of NPAs among loans given for housing and education rose to 1.17 per cent and three per cent respectively.

Source: knnindia.co.in– Dec 26, 2019

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Cotton yarn spinners may face 200-400bps margin squeeze: CRISIL Report

The report further explained that the dynamics of the spread between international and domestic prices of cotton also affects profitability The operating margin of domestic cotton yarn spinners is expected to shrink by 2-4 percentage points in the 2020 fiscal following higher domestic cotton prices and a sharp fall in exports, according to a report.

A narrowed spread between cotton and yarn prices compared to the last fiscal would also impact the margin, CRISIL Ratings said in the report.

Higher domestic cotton prices compared with international prices during April-October 2019, a sharp fall in exports mainly to China and Pakistan and the resultant domestic oversupply is likely to lead to this squeeze, it added.

"While domestic demand (70 per cent of domestic production) is expected to grow 3-4 per cent this fiscal, supply has been higher because of lower exports. The US-China trade war has impacted demand for yarn in China, while the Indian government has banned yarn exports to Pakistan.

"China and Pakistan (accounting for 35 per cent and 5 per cent of yarn exports, respectively, in fiscal 2019) have reduced imports from India by 50-60 per cent this fiscal," CRISIL Ratings Director Gautam Shahi said.

As a result, he added, exports in the first seven months of fiscal 2020 are lower by 38 per cent leading to higher domestic inventories and pressure on spreads.

"Considering recent reduction in domestic cotton prices to Rs 105-115 per kg and stable international cotton prices, profitability of spinners in the second half (of current fiscal) should be higher than in the first half. However, this may not be sufficient to offset the steep negative impact on profitability seen in the first half," CRISIL Ratings Associate Director Sushant Sarode said.

The impact on the margin will vary with size and product profile of the companies, operating margins for large spinners (having a capacity of over 50,000 spindles) could be lower by 200 bps (2 per cent) in fiscal 2020, while the impact on mid-and small-sized spinners (with less than 20,000 spindles) could be twice that.

The report further explained that the dynamics of the spread between international and domestic prices of cotton also affects profitability.

International cotton prices declined 15 per cent between April and October 2019, following a bumper crop in Brazil and the US, and destocking by global consumers, mainly China, it said.

On the other hand, domestic prices fell only 10 per cent during this period because of an increase in minimum support price (MSP), which rendered India's cotton yarn exports uncompetitive, it pointed out.

Cotton output is expected to improve with late recovery in monsoon and increase in sowing area to 127.7 lakh hectare, 6 per cent higher than last year, putting pressure on domestic cotton prices, which could slip below the MSP unless there is policy intervention.

On the other hand, international cotton prices are expected to remain range-bound until tariff issues between the US and China get resolved, the report added.

Source: Business Standard – Dec 26, 2019

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The Denim Supply Chain Came Together to Advance Sustainability in 2019

The denim supply chain and brands realized that partnering together can optimize their processes for products that are better quality and more sustainable. Recycled fibers, stretch denim and water reduction were some of the greatest innovations that came from these supply chain collaborations. In June, Gap worked with Arvind Limited in India, to develop an innovation center that addressed water scarcity in the region. Together, they also invested in a new water-treatment facility that eliminates the use of fresh water at Arvind's denim mill in Ahmedabad. By doing so, they're on target to save 3 billion liters of fresh water by the end of 2020.

More recently, Gap teamed with researchers to tackle two major obstacles hindering the push to develop circular design solutions: spandex separation and denim decolorization. Within the partnership, HKRITA is working with textile manufacturer Artistic Milliners to separate spandex from cotton using bio-solvents. It's also working with denim manufacturer Arvind Limited on a physical method to decolor denim without using damaging chemicals. Once both of these issues are resolved, materials can more easily be recycled and used to make new garments.

Denim mill Isko also championed recycled fibers this year when it called on former Levi's and Patagonia designer Miles Johnson to create a denim collection made from low-impact materials and responsible finishing techniques.

The collection, named Light on the Land, was created using Isko's R-TWO program, which combines a mix of reused and recycled materials taken from the mill's own production loss. The fabric is tracked, traced and has the Content Claim Standard (CCS) certification. The reused cotton is then blended with recycled polyester derived from PET bottles. The capsule collection consisted of 34 pieces and debuted in September.

That same month, Isko partnered with Mustang on a stretch denim collection that's made using the mill's patented Blue Skin technology. Named MoveOn, the men's and women's Fall '19 denim collection featured lightweight stretch fabric with 360-degree elasticity and a special weaving technique that gives an authentic denim look with contemporary washings.

Candiani also unveiled new innovations in stretch denim in 2019. In November, the mill partnered with Denham to launch a collection of stretch denim that's biodegradable. Using Candiani's patented plant-based Coreva Stretch Technology, the Life is Movement collection is created with organic cotton wrapped around a natural rubber core and has all of the same recovery and elasticity properties of other stretch denim.

Similarly, Spanish mill Tejidos Royo launched Fashility, a 14-piece capsule collection featuring premium Lycra brand fiber technologies. The company partnered with Lycra on the collection of woven trousers, jackets and skirts for men and women to showcase the versatility of its fabrics and performance range of Lycra fibers. The collection uses Lycra dualFX technology for shape retention, and Lycra Shaping for figure enhancement.
In August, denim manufacturer Cone Denim and apparel producer Crystal collaborated on a collection that focuses on sustainability at the source: fabric. The collection supports sustainable practices throughout the development and production lifecycle, featuring responsibly sourced cotton, recycled content and processing that's environmentally friendly.

This year, Cone Denim also partnered with color and specialty chemical company Archroma to ensure it stays on track with its sustainability efforts. The mill signed on as an adopter of Archroma's One Way sustainability service, a tool that helps mills understand the environmental impact of its manufacturing products. The partnership helps both companies cement their role in sustainable production.

Source: sourcingjournal.com– Dec 26, 2019

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Indian cotton spinning sector recovers from slowdown: ICRA

Indian spinners expect that the overall performance for fiscal 2019-20 will be weighed down by the tepid volumes and weak earnings seen in the first half of the fiscal. This is the likely scenario even though the industry is gradually recovering from the slowdown, according to a recent ICRA survey on the domestic cotton spinning industry.

According to Jayanta Roy, senior vice president and group head, corporate sector ratings, ICRA, the Indian cotton spinning industry's performance has been severely constrained in the current fiscal, being adversely impacted by the demand slowdown, unfavourable raw material prices and rising funding requirements.

“While export volumes have seen some uptick in recent months, as against the sharp de-growth witnessed between May-September 2019, they remain lower than the levels seen in the preceding fiscal,” an ICRA press release quoted Roy as saying.

The survey participants expect revenues to fall by more than 5 per cent and operating profitability to contract by around 3 per cent for the fiscal.

The other findings include the likelihood of cotton prices to remain below the minimum support price level till March 2020 on expectations of a bumper crop production in cotton year 2020 (India’s cotton year starts in October and ends in September; yarn prices and contribution levels continuing to tread lower than the 2018-19 levels even though yarn prices have started moving up; increase in working capital debt levels by ~15 per cent year on year, reflecting the inventory build-up amid shortfall in earnings; and limited capacity additions envisaged over the next 12 months.

In line with the survey findings, ICRA expects spinners to register a revenue de-growth of around 6 per cent, with both volumes and realisations having come under pressure in H1 FY2020. Key reasons for the same were weak export demand amid increasing competition from other producing countries and sluggishness in domestic consumption levels.

Higher domestic raw material costs, with Indian cotton prices trading at a premium to international cotton also contributed to the loss of export competitiveness. Buoyed by the improvement in exports witnessed since October 2019, the survey indicates that the industry pins its hopes on a continued gradual recovery in cotton yarn exports over the coming quarters, aided by the softening of domestic cotton prices.

While most industry participants expect operating profitability to contract by around 300 bps in the current fiscal, some respondents anticipate higher correction reflective of the difficult times being faced by the sector.

The fall so far has been steeper for companies which had stocked and carried over higher-cost cotton (at around ₹130/Kg) into the current fiscal. While the domestic cotton prices have reduced from July 2019, the decline in yarn prices has been sharper, resulting in contribution levels adjusted for cotton stock held falling to around ₹75/Kg in Q2 FY2020.

Even though yarn realisations have improved in recent weeks, the respondents do not expect any major uptick in yarn prices, given the low cotton prices witnessed as the industry expects the crop output in the current season to be healthy at more than 375 lakh bales.

Cotton and yarn prices are likely to remain range-bound at around ₹110-115/Kg and ₹195-205/Kg respectively in H2 FY2020. As a result, the spinners expect average contribution levels for the fiscal to be at ₹80/Kg (with contribution likely to improve to around ₹82-85/Kg in H2 FY2020 as against FY2019 levels of ₹95/Kg).

The survey findings also highlight that the working-capital debt levels of spinners have increased, because of a pile-up in yarn stocks and some elongation in the receivables cycle owing to the tepid demand conditions.

Respondents expect average utilisation of fund-based limits to be at around 90% in FY2020, higher from the 75 per cent levels seen in the last fiscal. On the back of these adverse developments, coupled with average capacity utilisation levels in the industry falling by around 500 bps to 82 per cent in H1 FY2020, a vast majority of the respondents have indicated that no capacity expansion is being planned over the next 12 months.

The credit profile of spinners has weakened in the recent quarters, with earnings from operations and liquidity position facing pressures in H1 FY2020 amid rising debt levels. The scenario is similar to FY2012, when cotton prices fell sharply, resulting in high inventory losses and tight cash flows for spinners. The impact on debt-coverage metrics and liquidity is expected to be more adverse for leveraged companies that have undertaken a sizeable debt-funded capital expansion in recent years and have higher repayments scheduled.

Source: fibre2fashion.com– Dec 27, 2019

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