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**The Cotton Textiles Export Promotion Council (TEXPROCIL)**
Engineering Centre, 5th Floor, 9, Mathew Road, Mumbai 400004. Maharashtra State. INDIA
W. www.texprocil.org E. ibtex@texprocil.org T. +91-22-23632910 to 12 F. +91-22-23632914

# IBTEX No. 225 of 2018 October 31, 2018

USD 74.01| EUR 83.95 | GBP 94.08 | JPY 0.65

## Cotton Market

**Spot Price ( Ex. Gin), 28.50-29 mm**

| Rs./Bale | Rs./Candy | USD Cent/lb |
|---|---|---|
| 22134 | 46300 | **80.41** |

**Domestic Futures Price (Ex. Gin), November**

| Rs./Bale | Rs./Candy | USD Cent/lb |
|---|---|---|
| 22390 | 46835 | **81.34** |

**International Futures Price**

| | |
|---|---|
| NY ICE USD Cents/lb ( Dec 2018) | 77.17 |
| ZCE Cotton: Yuan/MT ( Jan 2019) | 14,860 |
| ZCE Cotton: USD Cents/lb | **82.29** |
| **Cotlook A Index – Physical** | **87.75** |

**Cotton Guide:** Two days past this week cotton future continued to decline. However, the fall was very restricted on Tuesday. December future settled at 76.90 cents down by 27 points from the previous close. Likewise, the rest of the board settled marginally lower. There were no major news on market so it was a very thin trading session, the trading volumes were low around 20000 contracts and most part of the trades are being done on spread due to rollover of funds positions.

It is interesting to understand the movement of carry between December & March as funds is rolling their positions. For reference, the December-March spread traded 4,678 times between 138 and 155 before settling at 146 (in 3 points). It was the first day of the Rogers' Fund Roll. We had already indicated in our previous report.

China's ZCE futures continued its string of new recent lows. Traders noted a continuation of very quiet demand for US cotton. US equity markets rebounded smartly from previous day's 3-month lows, but this didn't seem to support cotton futures. Technically, market featured weak price action, but there was no change in the outlook. Most of the work is down, and the bears are undoubtedly looking for an opportunity to take out key support in the 7537-to-7600 area. Strong resistance between roughly 7950 and 8250 awaits any rally attempt.

On the domestic front there has been minor decline in the spot price. The Shankar-6 quoted marginally lower at Rs. 46,750 per candy ex-gin which approximately 81.05 cents per pound while Punjab J-34 traded around Rs. 4585 per mound (75.75 cents per pound). The estimated cotton arrivals are around 140,000 bales which include 38000 from North zone, 25000 in both Gujarat and Andhra Pradesh. On the future front November contract ended at Rs. 22390 down by Rs. 60 from the previous close. We think market might remain under stress and recommend selling from higher level. The trading range for the day would be Rs. 22200 to Rs. 22500 per bale.

**FX Update:**

Indian rupee has opened weaker by 0.3% to trade near 73.915 levels against the US dollar. Weighing on rupee is general firmness in US dollar on upbeat US economic data, concerns in euro-zone and hopes of dovish monetary policy stance by other central banks. US consumer confidence index for October rose to 137.9 as against Bloomberg forecast of 135.9. Concerns about Chinese economy has also dented outlook for emerging markets. China's manufacturing PMI fell from 50.8 to 50.2 as against market expectations of 50.6.

Trade concerns are also high as US has threatened to impose import tariffs on rest of Chinese goods if trade talks in November do not result in a deal. Also weighing on rupee is increasing rift between RBI and government. There are reports that government may invoke Section 7 of the Reserve Bank of India Act of 1934 which allows government to give directions to central bank on matters of public interest. However, supporting rupee is weaker crude oil price and some stability in equity markets. Brent crude hit 2-month low yesterday on demand concerns and higher US supply. Rupee may remain under pressure amid general strength in US dollar and weaker outlook for emerging markets. USDINR may trade in a range of 73.65-74.2 and bias may be on the upside.

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

# NEWS CLIPPINGS

| | |
|---|---|
| | **INTERNATIONAL NEWS** |
| **No** | **Topics** |
| 1 | Pacific Trade Pact Abandoned by Trump Officially Set to Kick In |
| 2 | Port of Los Angeles Advances $34M Rail Yard Expansion to Ease Cargo Movement |
| 3 | EU trade pact can reduce Vietnam's reliance on China, US |
| 4 | Next Trump Tariff Blow Could Be 10 Times Worse for U.S. Shoppers |
| 5 | EU apparel imports up ten per cent in July |
| 6 | 70% UK consumers prefer shopping overseas: PPRO |
| 7 | US seeks comments on modifying KORUS rules of origin |
| 8 | Myanmar hopes EU relents on duty free trade preferences |
| 9 | Huge benefits for Vietnam from EU FTA likely |
| 10 | Shanghai's CIIE offers unlimited possibilities for Pakistani exports |
| 11 | Pakistan: PBC urges PM to ask China for preferential duties in upcoming visit |
| | **NATIONAL NEWS** |
| 1 | Commerce Ministry to take up exporters' complaints on GST refund with FinMin |
| 2 | India to move up World Bank's ease of doing biz index: Official |
| 3 | How India should play the trade war |
| 4 | Margins of textile mills buoyed by cotton price fall, but hurdles lie ahead |
| 5 | 'Cabotage relaxation has helped reduce coastal shipping rates' |
| 6 | Melange of factors that pulled rupee down |
| 7 | Italy, India to set up fast track mechanism to promote investments |
| 8 | Bangladesh firm to operate Kolkata river terminal to promote Nepal trade |
| 9 | Arvind to list brands, engineering businesses by January 2019 |

# INTERNATIONAL NEWS

## Pacific Trade Pact Abandoned by Trump Officially Set to Kick In

A trade deal among 11 Pacific nations, once envisioned as a check on China's clout but abandoned by Donald Trump, is officially set to kick in.

Australia became the sixth country to ratify the Japan-led Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP — the number required to trigger the 60-day countdown to its activation — New Zealand said Wednesday.

"I expect other signatories will come on board after the CPTPP enters into force, as many are working hard to progress their applicable domestic procedures," New Zealand Trade Minister David Parker, whose nation is the depositary of the pact, said in a statement. "As a result, we could well see other signatories in a position to ratify over the coming weeks and months."

The CPTPP nations, representing 14 percent of global gross domestic product, are trying to expand the status quo view of free trade amid a tariff fight between Washington and Beijing and a simmering Brexit battle in Europe. The deal's enactment will be hailed by supporters as a victory for the global trading system bemoaned by Trump, who quit the original TPP deal.

### Deadline Met

Member nations were pushing to trigger the countdown this week so that the pact could come into provisional force before the end of the year. That would ensure an initial tariff cut followed by a second round on Jan. 1, when most of the nations make their annual tariff reductions. Japan's reductions come on April 1 each year.

"The timing means there will be the added bonus of a second round of tariff cuts on 1 January 2019 for New Zealand exporters into those markets which apply a calendar tariff year," Parker said.

He said CPTPP marks the first free trade deal for New Zealand with Japan, the third largest economy in the world, as well as with Mexico and Canada, which are both G20 countries.

Australia joined Canada, Mexico, Japan, Singapore and New Zealand in ratifying the deal. Countries yet to ratify are Brunei Darussalam, Chile, Malaysia, Peru and Vietnam. The other countries will each join after ratifying but will face a delayed schedule of tariff cuts.

Source: sourcingjournal.com- Oct 30, 2018

HOME

*****************

## Port of Los Angeles Advances $34M Rail Yard Expansion to Ease Cargo Movement

The Port of Los Angeles is moving ahead with a major rail project to optimize on-dock rail operations and improve the flow of cargo throughout the nation's busiest harbor complex.

The Terminal Island Railyard Enhancement Project will reduce truck trips, tailpipe emissions and congestion on local streets and freeways, improving roadway safety, port officials said.

"Maximizing our rail network is vital to operating America's cleanest, most competitive seaport," Harbor Commission President Jaime Lee said. "The economic and environmental benefits extend to our customers, neighbors, regional transportation system and our nation. We appreciate the $21 million grant from the Trade Corridor Enhancement Program that will fund a significant portion of this project."

The $34 million project will be funded with a $21.6 million grant from the State Road Repair and Accountability Act of 2017—Trade Corridor Enhancement Program, which funds improving freight corridors in California. The port will fund the remaining $12.4 million.

The project expands an existing intermodal rail storage yard on Terminal Island, adding more than 31,000 feet of track to expand the number of storage tracks to 11 from six.

The project will increase capacity and use of Pier 400 on-dock railyard by up to 525,000 Twenty-foot equivalent units (TEUs) annually, representing about a 10 percent overall increase in capacity for the Port of Los Angeles.

“Expanding this rail yard creates a ripple effect of intermodal efficiencies within the Port of Los Angeles and throughout the entire San Pedro Bay port complex,” Port of Los Angeles Executive Director Gene Seroka said.

“It is a key element of regional and state transportation plans to improve safety and traffic conditions along some of our nation’s most crowded commuter and freight corridors.”

By increasing on-dock capacity at Pier 400, the project also will free up capacity at another major storage and staging yard located on Terminal Island, improving overall rail operations throughout the ports of Los Angeles and Long Beach.

The project is a critical link between the San Pedro Bay port complex and the Alameda Corridor, which carries about 11 percent of all waterborne containers entering and exiting the U.S.

As rail demand increases, the expanded rail yard is projected to eliminate an estimated 1,250 truck trips per day by 2040. Shifting the amount of containers currently moved off-dock miles from the port to on-dock rail at the port complex is a key strategy of the San Pedro Bay Ports Clean Air Action Plan 2017 Update, the California Sustainable Freight Action Plan and the California Freight Mobility Plan.

The Los Angeles Harbor Commission formally approved the project’s Final Initial Study/Mitigated Negative Declaration in early October, which concluded the environmental review process. The Port is currently preparing the final design.

The construction contract award is expected by June 2020, with project completion by early 2022. More than 300 construction jobs are expected to be created during the course of the project.

Source: sourcingjournal.com- Oct 30, 2018

**HOME**

*****************

# EU trade pact can reduce Vietnam’s reliance on China, US

The Vietnam-EU trade pact can diversify export markets and help reduce reliance on China and the U.S., experts say.

On October 17, the European Commission submitted the EVFTA for signature and conclusion to the European Council.

Once authorized by the Council, the agreement will be signed and presented by the end of this year to the European Parliament for ratification. The European Parliament is set to ratify the EVFTA early next year.

The trade pact, which has been negotiated since June 2012, is considered a game changer as it would eliminate almost all trade tariffs between the two sides.

Luu Bich Ho, former head of the Vietnam Institute for Development Strategies under the Ministry of Planning and Investment, said that the deal would play a major role in reducing Vietnam’s reliance on the U.S. and China, the world’s two largest economies.

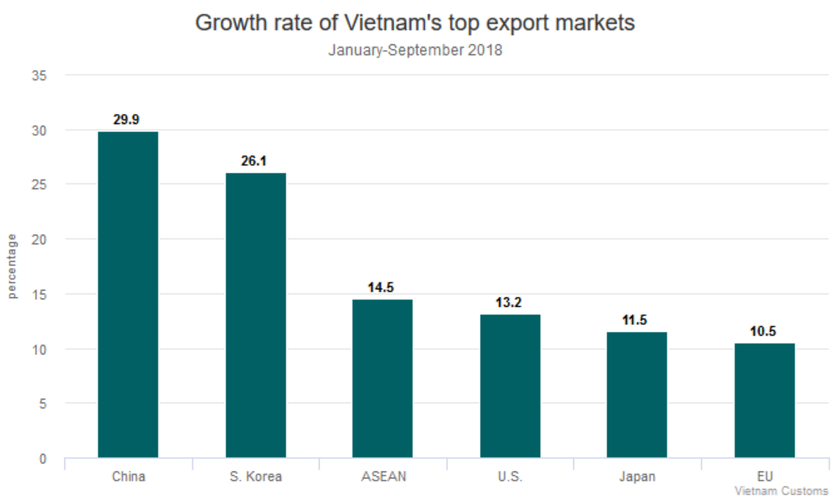
“This is obviously an opportunity for Vietnam to increase export [to the EU] to avoid being affected should the U.S. seek to limit imports from Vietnam,” Ho told VnExpress International.

It’s also a chance for Vietnam to diversify its markets as it is still heavily dependent on China in trade, he added.

In the first nine months this year, the U.S. was Vietnam’s largest export market, accounting for 19.5 percent of Vietnam’s total exports, a growth of 13.2 percent year-on-year, according to Vietnam Customs.

Although the EU came second and accounted for 17.4 percent, this market has the smallest growth rate among Vietnam’s top six export markets at 10.5 percent.

China was the third largest export market, had the highest growth rate of 29.9 percent. It was also Vietnam’s largest import market, accounting for 27.3 percent of Vietnam’s total imports.




Experts have expressed concern that Vietnam will be negatively affected by the ongoing U.S.-China trade war, with the U.S. limiting exports from Vietnam as part of its protectionist policy and China could export its goods via Vietnam to the U.S. to avoid President Trump's tariffs.

In this context, the EVFTA opens the door to a more diverse market for Vietnam.

Le Dang Doanh, former head of the Central Institute for Economic Management, said that the trade pact will be an opportunity for Vietnam to see strong growth in its major export sectors, such as textile, fisheries and footwear. The EVFTA, when ratified, will immediately remove tariffs on 65 percent of the value of EU exports, with the remaining tariffs being gradually eliminated over the next decade.

Meanwhile, 71 percent of EU imports from Vietnam will be tariff-free once the EVFTA enters into force, rising to more than 99 percent over the following 7 years. In July, Minister of Industry and Trade Tran Tuan Anh said that the 99 percent tariff-free rate for exports will be the highest rate for Vietnam in any FTA.

Anh told reporters that if the EVFTA goes into effect next year, exports from Vietnam into the EU could increase by $16 billion in the first one or two years, and reach $75-76 billion in 2028.

Last year, trade turnover between Vietnam and the EU reached $50.4 billion, in which Vietnam's exports to EU reached $38.3 billion and EU's exports to Vietnam reached $12.1 billion. However, others experts have cautioned about the difficulties that Vietnam will face in complying with the new trade pact.

Nguyen Mai, chairman of the Vietnam Association of Foreign Investment Enterprises, said that Vietnam needs to pay close attention to the intellectual property rights as the EU has strict regulations concerning this matter. The country also needs to improve its labor rights to make sure that workers are protected and not oppressed.

“We need to guarantee good living conditions for Vietnamese workers, as that’s what the EVFTA requires,” he told VnExpress International.

Source: e.vnexpress.net- Oct 30, 2018

HOME

*****************

## Next Trump Tariff Blow Could Be 10 Times Worse for U.S. Shoppers

The next round in the U.S.-China trade war could be the costliest one yet for American consumers.

The U.S. is said to be preparing to announce tariffs on all remaining Chinese imports by early December, and the impact at the checkout counter may be as much as 10 times higher than earlier rounds of levies, according to a report from Citigroup economists.

“Amid tight labor markets and higher input costs, we think there is a risk that firms decide to pass through some of the costs to consumers,” analysts Cesar Rojas, Catherine Mann and Veronica Clark wrote in the Citigroup Global Markets report dated Oct. 29. “The additional tariffs on China have the potential to boost inflation even more than what we currently anticipate.”

The new penalties, which could take effect in early February, would encompass Chinese-made consumer goods like Apple iPhones and Nike shoes that the Trump administration has so far left untouched. The impact of a 10 percent tariff on the $267 billion of imports could be 10 times larger than the first $50 billion round and double that of the $200 billion tariffs in the second round, the analysts wrote.

Producers and retailers of apparel and footwear are already planning for the higher tariffs, according to Stephen Lamar, executive vice president of the American Apparel & Footwear Association.

"Companies are looking down the road and expecting tariffs to come," he said in an interview on Oct. 23. "Everyone knows he's going to do it."

As companies consider switching to suppliers in other parts of Asia, the law of supply and demand is putting upward pressure on costs in neighboring countries, Lamar said. "Everyone is leaving China and going to the same places," he said. "Vietnam gets more expensive, Cambodia gets more expensive, everywhere gets more expensive."

Source: sourcingjournal.com- Oct 30, 2018

HOME

*****************

## EU apparel imports up ten per cent in July

The European Union's apparel imports rose 10.70 per cent in July this year. From January to July '18, the EU's imports of apparels upped marginally by 0.06 per cent. In this period the value of China's apparel exports to the EU fell by 6.78 per cent.

Unit prices this year too plunged by 1.60 per cent. The continued fall indicates China is no longer a favorite place for European buyers to place orders. But China remains the EU's largest apparel sourcing destination, with Bangladesh taking second place.

Bangladesh's apparel exports to the EU grew 3.92 per cent year on year. Turkey somehow remained stable despite the worst ever economic crisis it is facing and managed to tap a 2.90 per cent growth in its apparel shipments to the EU. Turkey's unit prices remained the highest among all top apparel exporters to the EU.

India's value of apparel exports to the EU fell 3.02 per cent. India's readymade garment sector will continue to enjoy 20 per cent duty preference on exports for the next three years to EU markets. Vietnam saw a 2.44 per cent growth till July '18.

The EU itself has a vibrant textile and clothing industry, covering a wide range of activities like transferring raw fiber into yarns and then yarns into fabric and then finally using the fabric to produce a wide range of finished products such as wool, bed-linen, geo-textiles, clothing, and synthetic yarns.

Source: fashionatingworld.com- Oct 30, 2018

HOME

*****************

## 70% UK consumers prefer shopping overseas: PPRO

Online retailers in the United Kingdom (UK) are facing tough competition as 70 per cent of the consumers are buying goods from overseas merchants as compared to 53 per cent 4 years ago, says a research by PPRO Group. China (45%), US (43%) and mainland Europe (34%) were highlighted as the most popular regions for UK consumers when shopping online.

However, there are still hurdles when it comes to purchasing goods from overseas merchants, with 64 per cent stating that the payment process stopped them from completing a transaction, revealed the research by PPRO Group, e-payment specialists.

Reasons cited were preferred options not being available (22%), complicated processes to make payments (16%) and lack of trust in the payment methods provided (9%). As a result, overseas retailers are missing out on revenue from potentially loyal consumers, as 75% would be more likely to buy goods if it became easier to use familiar payment methods, the research stated.

"Payment methods play a huge part in the online customer journey and all it takes is one bad experience in a first transaction with a new retailer and a potentially loyal customer is easily lost to a competitor.

The first step to securing consumer confidence and driving sales as well as global business growth is to understand the culture of payments.

Not only must the website be designed with the customer journey in mind to make it easy to navigate, but if the customer reaches the checkout and their preferred payment isn’t available, all that investment to get them to the site in the first place is wasted," said Jack Ehlers, director of Payment Partnerships at PPRO Group.

"By removing the boundaries and complexities of alternative payment methods, consumers can ultimately buy what they want, where they want and how they want, increasing opportunities for retailers.

If these barriers aren't addressed, the future for new online retailers is severely limited," added Ehlers.

Source: fibre2fashion.com- Oct 30, 2018

HOME

*****************

## US seeks comments on modifying KORUS rules of origin

The US Committee for the Implementation of Textile Agreements (CITA) has sought public comments on a South Korean request to initiate consultations under the US-Korea Free Trade Agreement (KORUS), particularly with regard to whether certain fibres, yarns and knitted fabrics can be supplied by the US domestic industry in commercial quantities in a timely manner.

The request for modifying KORUS rules of origin for certain textile and apparel products was received from the South Korean Government in September, according to information posted on a US Government website.

Comments must be submitted by November 16 to the CITA chairman.

Source: fibre2fashion.com- Oct 30, 2018

HOME

*****************

## Myanmar hopes EU relents on duty free trade preferences

Myanmar would like the EU to continue with the trade preferences. Myanmar garment manufacturers say the loss of duty-free export trade preferences could put more than 4,00,000 jobs at risk and badly damage the country's economy by depriving it of its largest source of foreign exchange income.

The country says it is progressing with the reforms and needs the EU's support for further reforms.

The EU says before taking a decision to withdraw the preferences it would investigate human rights violations, and whether Myanmar had committed labor rights violations and followed international law and regulations.

The value of Myanmar's garment exports to the EU has significantly increased from 2013 to 2017. The EU has become Myanmar's largest trade partner for garments, purchasing more than 47 per cent of the products.

Since 2013, the EU has lifted duties on goods from Myanmar under the EBA's zero-tariff import regime. Nearly 70 per cent of Myanmar's exports go to EU countries, and more than half of these are garments.

As a result of the opening of the EU market, the number of factory workers in Myanmar has grown from 2,40,000 in 2012 to 4,50,000, and the garment sector is the most labor intensive of the country's major industries.

Source: fashionatingworld.com- Oct 30, 2018

HOME

*****************

## Huge benefits for Vietnam from EU FTA likely

The free trade agreement with the EU is expected to benefit Vietnam by expanding export markets and engaging deeper into the global value chain.

Negotiations for the deal have ended after six years. With a commitment to cutting down import taxes by over 99 per cent, the deal will bring about great chances for Vietnamese firms to strengthen exports, especially in products Vietnam holds strengths in, such as garments and textiles, footwear, agro-fishery, and timber.

In particular, products that have never been sold in the EU due to tariff barriers will be able to access the market with a competitive price.

The FTA will help increase Vietnam's export revenue by four per cent to six per cent a year in the ten years after it takes effect. This is true especially for the garment and textile sector.

As Vietnam's and the EU's export products and economic structures are supplementary without direct competition, the benefit from the deal is huge.

However, along with the opportunities, Vietnam will also face some challenges from the FTA from 2019 onwards.

Enterprises who wish to export goods to the EU will have to show certificates of origin for their products in order to enjoy the Generalised System of Preferences.

Source: fashionatingworld.com- Oct 30, 2018

HOME

*****************

## Shanghai's CIIE offers unlimited possibilities for Pakistani exports

The first ever China International Import Expo (CIIE) will be held in the Chinese financial hub of Shanghai on Nov. 5-10, and about 40 businessmen from Pakistan will showcase their products.

China has given Pakistan the status of "Guest of Honor" at the event, and local Pakistani analysts believe that the expo will act as a much-needed platform for Pakistan to display the strongest of its commodities to the outside world.

Arsalan Ayaz, a political analyst associated with Rawalpindi-based think tank Measac Research Centre, told Xinhua that Pakistan would have a great chance to get benefit from the expo as financial experts from across the world are expected to attend the event.

"Pakistan lost its reputation post-9/11, so it is an excellent chance for the country to rebuild its image through this event. A large number of foreign investors will be attending it, so it will be a great chance for the Pakistani government to woo them back to seek investment opportunities in the country," he said.

Pakistani Prime Minister Imran Khan will also attend the opening session of the expo. In a meeting with a visiting Chinese delegation headed by Song Tao, chief of the International Department of the Communist Party of China Central Committee, in Islamabad earlier this month, Khan said the CIIE would provide an opportunity to both sides to look into the export possibilities from Pakistan to China.

Commenting on it, the analyst said Khan's voters have high hopes that he will take useful measures to support the staggering economy, so this is the right time for him to grasp the opportunity and explain his export-friendly policies, and his strategies for trade and economics, through the CIIE.

"If he can seize the opportunity, it will be a landmark achievement for him," Ayaz said.

In a press talk earlier this month, Chinese Ambassador Yao Jing said the CIIE could also play a part to overcome trade imbalance between Pakistan and China. He assured that the Chinese embassy in Islamabad would fully facilitate the Pakistani businessmen to avail the opportunity.

Pakistan's Secretary of Commerce Younus Dagha said that they are looking forward to exporting textile and agriculture products to China through the CIIE. He noted that the Chinese economy was growing and the purchasing power of the people was increasing, so Pakistani products could find a great market there.

Ayaz said that Pakistan is an agro-based country, so Pakistani products like rice and cotton, and other products like leather and textiles have a massive potential in the Chinese market.

"This expo will encourage Pakistani businessmen to go and seek opportunities in the Chinese market, and it will further enhance the bilateral relations and cooperation, and brotherly relations will further be translated into economic cooperation," he said.

The expert said it is not an export expo but an import expo, and China is inviting outside world to invest and bring their products to China.

Source: globaltimes.cn- Oct 30, 2018

HOME

*****************

# Pakistan: PBC urges PM to ask China for preferential duties in upcoming visit

The Pakistan Business Council (PBC) has suggested Prime Minister Imran Khan in his upcoming visit to China recommend preferential duties on Pakistani products, which if approved can harness nearly $3.8 billion additional exports per annum.

In a letter written to Prime Minister's Advisor Abdul Razzak Dawood, the PBC said preferential tariff would increase exports to China. The government of China has granted favourable tariff regime for Bangladesh and ASEAN, a statement quoting the letter said on Tuesday.

Bangladesh is part of China's LDC (Least Developed Countries) scheme, which allows it duty free access on 97 percent of the tariff lines, while ASEAN-China FTA offers zero-duty on 90 percent of the products exported to China.

It said that the export potential was measured as the difference between what China currently imports on these lines from Pakistan and its total imports from the world, subject to Pakistan's current capacity to supply, as measured by its total exports of the same line to the world.

Out of hundreds of products handled by Pakistan, China, ASEAN and Bangladesh, PBC pointed out 25 products, which include milled rice polished and glazed, fish, trousers for men and women, yarn of different thickness, shirts, t-shirts, leather jackets, and cotton yarn.

The council explained that 25 products, which were imported by China, constituted to around $9.761 billion per annum, while Pakistan's share was around $800 million.

On these products, the country's exporters paid duty ranging from 3.50 percent to 65 percent, it said.

However, the PBC said the ASEAN exporters received zero-rating on 18 of these same 25 items, and Bangladesh, which had the Least Development Countries status, was given zero-rating on 16 products.

The government should table these proposals in the upcoming visit proposing preferential trade agreement to help enhance the trade to around $3.7 billion from the present level of $800 million, the PBC said.

According to an analyst, the government instead of asking for hefty loans from brotherly countries and especially China should urge these countries to give Pakistan access to their markets, which would have a chain impact on the economy.

This additional $4 billion worth of exports would help boost the large manufacturing sector, shrink trade deficit, generate employment, improve revenue collection, and above all better the image of Pakistan in the world trade market.

Source: thenews.com.pk- Oct 30, 2018

HOME

*****************

## NATIONAL NEWS

# Commerce Ministry to take up exporters' complaints on GST refund with FinMin

*Exporters say they must be allowed to switch from duty drawback to IGST refund*

The Commerce Ministry has taken note of exporters' complaints that the input duty refund under the duty drawback scheme claimed by some last year was much lower than the IGST (Integrated Goods & Services Tax) refunds due to them and it may ask the Finance Ministry to address the issue.

"Exporters have said that they are willing to pay back the drawback with interest and they should be instead given IGST refund which is a much higher amount. The DGFT is likely to take up the matter with the Customs Department," a government official told BusinessLine.

Last year, when the GST regime was implemented, exporters were given the option of continuing with the popular duty drawback scheme (at a higher rate for some items) for three months (July-September) if they agreed to forego refund of IGST paid by them.

After a number of exporters opted for the duty drawback option, they discovered that the IGST paid by them on inputs was much higher and opting for refunds under IGST would have been a better deal.

**'Initial confusion'**

"In the initial period everyone was confused about GST impact. A number of exporters were not aware of the implications and chose to be compensated for input taxes under the duty drawback scheme.

Now when they understand that GST refund would give them a much higher amount for many items, the government should oblige," said Ajay Sahai from the Federation of Indian Export Organisations (FIEO). Giving an example, Sahai said that for vegetables the drawback rate is 1 per cent. So, if an exporter is shipping say cauliflowers to West Asia at ₹40 per kg, he will get 40 paise as drawback.

However, air freight is ₹100 per kg for cauliflowers and if the exporter is paying 5 per cent GST of ₹5 on that, then by opting for 40 paise of duty drawback, he is losing out on the ₹5 as GST refund. "What is the problem in not giving him the ₹5 as GST refund if he is willing to refund the duty drawback he got together with interest. The exporter is asking for what is rightly his," Sahai said.

While the Finance Ministry has once refused to allow exporters to switch their stated preference, Commerce Ministry officials say that they will take up the issue again. "Exporters need to be compensated fully for the input taxes paid as it is vital to help them stay competitive in the global market," they said.

Source: thehindubusinessline.com- Oct 30, 2018

HOME

*****************

## India to move up World Bank's ease of doing biz index: Official

***'Performance will be as encouraging as last year's'***

India is expected to show a "big improvement" in its ranking in the World Bank's Ease of Doing Business global index to be announced on Wednesday with improved performance in most of the 10 indicators of doing business, a government official has said.

"The top three areas of improvement this year are likely to be starting a business, trading across borders and dealing with construction permits. The overall performance this year will be as encouraging as last year," the official told BusinessLine.

India jumped 30 notches last year to rank in the top 100 countries in the World Bank's Ease of Doing Business global rankings for the first time. The World Bank ranks a total of 190 countries.

Commerce Minister Suresh Prabhu also indicated that India's performance would improve in the World Bank's ease of doing business report 2019 to be released on Wednesday.

"Tomorrow, you will be hearing a better news about India improving parameters on ease of doing business. We already have improved substantially. We will make the formal announcement tomorrow with the World Bank (releasing its report)," Prabhu said on Tuesday.

The World Bank had noted in its last report that India lagged in areas such as starting a business, enforcing contracts, and dealing with construction permits. "These are the areas where India gave specific focus and, therefore, hopes to reap maximum gains," the official said.

While the World Bank's index is designed to give an idea to foreign investors about the investment regimes in different countries, it is yet to be ascertained whether improvement in India's ranking has actually resulted in higher foreign investment flows.

The World Bank ranks countries based on parameters such as starting a business, construction permits, getting electricity, getting credit, paying taxes, trade across borders, enforcing contracts and resolving insolvency.

Source: thehindubusinessline.com- Oct 30, 2018

HOME

*****************

## How India should play the trade war

Indian policy makers have been trying to figure out how to gain strategic advantage from the US China trade war. Its response needs to encompass trade, investment, tax, regulatory, exchange rate policies

The recent surge in proposals for greenfield foreign direct investment in some Asian countries should pique the interest of all those who ask whether India can benefit from the intensifying trade war between the US and China.

The United Nations Conference on Trade and Development released data last month that shows how international firms have announced plans to pour money into new projects in Indonesia ($28 billion), Vietnam ($18 billion) and the Philippines ($12 billion).

It is quite likely that these new greenfield investment proposals—that come in the midst of an overall decline in global foreign direct investment—could be because international firms are trying to relocate parts of their supply chains to other countries in the region, as Donald Trump turns the screws on Chinese mercantilism.

There are lessons for India here. Indian policy makers have been trying to figure out how to gain strategic advantage from the trade war between the two largest economies in the world. The first task is to identify the opportunities.

India has few manufacturing capabilities in many of the largest items in the US import bill—mobile phones, telecom equipment, household appliances, toys, televisions, semiconductors, industrial machinery. Where India can get into the game is in sectors such as textiles, clothing, auto components and certain types of chemicals, a government official told me. A similar exercise can be carried out with respect to what China imports from the US. But that is not all.

It is well known that modern trade is dominated by the exchange of inputs—or intermediate goods—through supply chains that straddle across international borders. India has generally been unable to become an active participant in these supply chains. The fact that so much of international trade is now between firms rather than from producer to final consumer means that it is impossible to separate trade policy from investment policy in an interconnected world. That is why the surge in foreign direct investment in Indonesia, Vietnam and the Philippines deserves closer attention in India. It could be linked to US companies gradually increasing their purchases of inputs from Asian countries other than China.

Getting large investment projects—backed by either domestic or foreign money—will thus be central to any strategy to take advantage of the trade war. Such projects will help India plug into international supply chains. A global equity investor I recently met said that many large US companies are actively considering options to reduce their geopolitical risk by shifting some of their suppliers to other Asian countries.

This is a strategic opening for India to get into the reckoning, though that will require a comprehensive look at import tariffs, investment policy, ease of doing business and moving to a goods and services tax (GST) that encourages exports by zero rating them (see this 30 July 2018 oped by V. Bhaskar and Vijay Kelkar).

The reality has been messy. India has moved up the ease of doing business rankings of the World Bank. Foreign direct investment has been steadily climbing, though not enough is coming into new industrial projects. The transition to GST as well as the demonetization shock disrupted many existing supply chains. Trade policy seems to be taking a protectionist turn; Abba P. Lerner showed way back in 1936 that an import tariff has the same economic effects as an export tax.

Trump hopes to close the US trade deficit, though it is safe to guess that the largest economy in the world will continue to run a large current account deficit in the coming years because its domestic savings are far lower than domestic investment. However, US trade policy will be disruptive. The key question is whether what Trump is doing will lead to trade diversion away from China or worldwide trade destruction. Trade diversion should benefit India if the government plays its cards well, and that is a big if. Trade destruction will harm all the major economies in the world. India too will get singed. There is reason to bet on trade diversion rather than trade destruction right now.

India has failed to do what Asian countries from Japan in the 1950s to Korea in the 1980s to China in the 2000s did so successfully—export labour-intensive goods to the developed world. At least two contemporary hot-button issues are directly linked to this failure. The first one is job creation in formal enterprises. The second one is recurrent balance of payments scares. Look at the case of textiles, an industry where India has deep historical capabilities. The opportunity that came our way after the multi-fibre agreement was scrapped at the turn of the century was frittered away, even as China, Vietnam, Bangladesh and Sri Lanka grabbed the opportunity.

The trade war could provide another such strategic opening as long as it does not destroy the liberal trading system. However, the Indian response needs to encompass trade, investment, tax, regulatory and exchange rate policies. Trade will not be automatically diverted from China to India. There is a lot of hard work to do. The initial fear is that the likes of Indonesia, Vietnam and the Philippines are walking away with the prize. That should hopefully focus some minds in New Delhi.

Source: livemint.com- Oct 31, 2018

HOME

*****************

# Margins of textile mills buoyed by cotton price fall, but hurdles lie ahead

*Cotton prices in major producing centres such as Punjab and Madhya Pradesh have declined to nearly 10% below the government's MSP*

The profit margins of textile mills improved during the second quarter (July-September) of the current financial year. Input costs were low, driven largely by a fall in cotton prices.

Leading players Welspun India, Trident and Vardhman Acrylic reported emphatic growth in turnover and net profit, as did Raymond and Surat Textiles.

Welspun India, for example, posted a 21.4 per cent growth in net profit to around Rs 1.217 billion over the same period last year. Sales grew 11 per cent to Rs 17.8 billion.

"Raymond's overall performance was above our expectations, driven by broad-based growth across divisions. Sales increased 16 per cent, Ebitda (operating earnings) by 36 per cent and net profit by 63 per cent, above our expectations. Management commentary was cautious on Q3 growth trends but it expects growth to improve from Q4, due to the wedding season.

**COMPARATIVE ANALYSIS**

| | Net sales (₹ mn) | | Net profit (₹ mn) | |
|---|---|---|---|---|
| (Quarter Ended) | Sep '18 | YoY chg (%) | Sep '18 | YoY chg (%) |
| Raymond | 18,478 | 15.8 | 652 | 4.8 |
| Welspun India | 17,799 | 10.8 | 1,217 | 21.4 |
| Trident | 13,915 | 24.2 | 1,091 | 114.4 |
| Sintex Inds. | 9,072 | 24.7 | 479 | 69.7 |
| Vardhman Acrylic | 1,175 | 27.4 | 130 | 82.6 |

Filtered for textiles companies which have declared their Q2FY19 results
Compiled by BS Research Bureau
Source: Capitaline

While Raymond has maintained its 100 basis points (bps) margin expansion guidance (estimate) for the year, we believe that upsides are likely, given the 190 bps margin expansion in the first half. Better capacity utilisation in garmenting, higher gains from currency depreciation and continued focus on efficiencies should drive margin expansion in the second half," says Ashit Desai, an analyst with Emkay Global.

These dynamics might change in the coming quarters with demand for cotton coming from Pakistan, China and other importing countries at a time when the domestic natural fibre output is estimated to decline.

As against the earlier forecast of 36 million bales (a bale is 170 kg) of output, traders and industry experts now estimate cotton output at 33-33.5 million bales this year.

"Raw material prices remained subdued during the quarter, though cotton demand from domestic textile manufacturers was robust, as mills needed to prepare stocks for the festival and seasonal demand in October-November," said Ajay Kedia, managing director, Kedia Stocks and Commodity Research.

Cotton prices in major producing centres such as Punjab and Madhya Pradesh have declined to nearly 10 per cent below the government's minimum support price of Rs 5,450 a quintal (of long staple). In August, these had fallen to Rs 4,300 a quintal. At present, it is Rs 4,600 a quintal at spot markets in Gujarat.

China has since turned to India for import of cotton due to a higher import duty levied on its traditional supplier, America. Pakistan is also likely to procure from India this year.

"Cotton farmers in Maharashtra and Gujarat are facing a double whammy. While a drought has reduced the output potential, pink bollworm attack has further lowered production possibilities. This has come when demand from China and Pakistan has suddenly emerged. Overall, Pakistan is looking a better and sustainable market for India than China," said a city-based cotton exporter.

Meanwhile, a recent report from India Ratings forecasts robust demand for textiles from end-users in India, supported by a strong rise in private consumption expenditure during the rest of this financial year.

Also, apparel export is likely to rise, with the rupee's fall against the dollar at a higher rate over April-August than the currencies of other key exporting nations.

The rising dollar has also lowered the potential for cotton import into India, as imported cotton would now become costlier than domestically available fibre.

Source: business-standard.com- Oct 31, 2018

HOME

*****************

# ‘Cabotage relaxation has helped reduce coastal shipping rates’

*Krishnapatnam, Vizag getting cargo previously transhipped through Singapore or Colombo: Shipping Secretary*

Union Shipping Secretary Gopal Krishna on Tuesday said relaxation of cabotage for foreign-registered vessels has helped reduce coastal shipping rates and Indian seaports like Krishnapatnam and Visakhapatnam are attracting a share of cargo which was previously transhipped at Singapore or Colombo.

The Centre relaxed cabotage for foreign registered vessels in May. It allowed foreign liners to pick up cargo en-route. Shipping Line Maersk has already opened coastal links between Kolkata- Paradip and Kattupalli port of the Adani group in Chennai to facilitate coastal shipping.

“We are getting back the cargo,” Krishna said. According to him coastal shipping failed to grow due to various restrictions involving the ownership of ships, which in turn impacted the availability of ships. The cabotage relaxation has “impacted” the supply.

However, to further promote the sector which would benefit consumers in terms of lower logistics cost, India should do away with the restrictions.

“Currently an Indian citizen cannot charter a foreign flag vessel. This policy is not helping the consumer and is preventing competition and restricting market growth,” he told BusinessLine.

Krishna, who was in the city to flag off the private public partnership of Garden Reach terminal of Inland Water Authority of India (IWAI), said integrating coastal shipping with the inland river transport will open a host of logistics opportunities to trade.

The Ministry recently allowed movement of inland vessels within five nautical miles off the coast. A host of agreements were also signed with Bangladesh earlier this month to promote coastal shipping and extend the scope of inland river transport protocol by adding new routes and ports.

“We had protocol routes upto Karimgunj in Assam. Now we extended it to Silchar (Assam) and restored the pre-Partition route between Dhulian (Murshidabad, West Bengal) and Rajshahi. We are also exploring the possibility of opening a new link through Gomti river to connect Sonamura in South Tripura,” he said.

**Inland water transport**

The IWAI Chairman Pravir Pandey explained that with the passage of the 2016 National Waterways Act the agency is focussing on the dual agenda of building the national waterways and developing feeder channels to make end-to-end movement of cargo possible.

In two separate developments today, the Kolkata Port Trust handed over the Garden Reach Terminal, comprising three jetties, to IWAI and the latter awarded it to private partner Summit Alliance for operation and maintenance.

Pandey said while user interest in waterways is rising, there are not many vessels to cater to the need as private entrepreneurs are waiting for the infrastructure to be ready. To break ground IWAI has pressed its own vessels into service and will soon invite tenders for procuring 20 vessels.

“We do not intend to be a vessel operating agency. We are merely doing this to showcase the potential. In the long run private interests should dominate,” Pandey said.

According to him, the Varanasi terminal of the ₹5,369-crore Ganga Jal Marg project will be inaugurated by November or December and Sahibgunj terminal in Jharkhand will be ready in March next.

Source: thehindubusinessline.com- Oct 30, 2018

HOME

*****************

# Melange of factors that pulled rupee down

*No long-term steps have been taken to reduce the trade gap. Reserves are inadequate buffers, given the 'hot money'element*

The Centre's decision to raise import tariffs on a range of non-essential items like telecom equipment, precious stones and jewellery, ACs, refrigerators, washing machines etc. has come in the backdrop of the current account deficit rising to 2.4 per cent of GDP in Q1 of 2018-19, further up from 1.9 per cent in 2017-18. Through these steps the government expects to compress the external deficit and stall the rupee's ongoing downslide. Will it work in the longer-term?

## A longer view


During the high growth phase of the Indian economy in the last decade, with real GDP growth averaging 8.7 per cent from 2003-04 to 2010-11, merchandise import growth far outstripped export growth and led to a persistent trade and current account deficit. When growth started slowing down and yet the current account deficit continued to widen, peaking at 4.8 per cent of GDP in 2012-13, there was a sharp currency depreciation episode, during the "taper tantrum" of mid-2013.

That a rising current account deficit will once again bring the balance of payments under strain, especially with the end of accommodative monetary policies in the US, was known to the policy-makers. Yet the period since the "taper tantrum" was not utilised to seriously address the persistent current account imbalance. With imports falling significantly following the sharp fall in crude oil prices during 2014-2016, attention got diverted from the fact that India's export growth practically collapsed during this period.

Export performance during 2016-2018 was modest, following which the current account deficit started widening in 2017-18, with rising crude oil prices and enhanced non-oil imports like electronics goods, precious stones, coal etc. Moreover, foreign exchange earning sectors like software services exports and remittances have witnessed growth stagnation since 2013-14.

The government's 'Make in India' thrust has clearly failed in reviving exports so far; rather the digitisation drive appears to have increased import dependence on electronic goods.

A longer view of the rupee-dollar exchange rate shows that while the rupee value remained within the band of ₹40 to ₹50 per dollar in the period from late-1990s to 2011, it breached the ₹60 per dollar threshold during the "taper tantrum" of 2013 and has now crossed the ₹70 mark in 2018; there has been an accelerated depreciation of the rupee over the past six years.

Chart 1 reveals two notable features of this phase of accelerated nominal depreciation of the rupee: (i) While the movement of other major international currencies like Euro, British Pound or Japanese yen were not always in tandem with the dollar, they have all moved together during the episodes of sharp depreciations in 2013 and 2018. (ii) Despite India's foreign exchange reserves increasing from a monthly average of around $292 billion in 2012 to $411 billion in 2018, such an increase has neither been able to stall the gradual decline in the rupee's value nor prevent the sharp fall vis-a-vis all major currencies in the current year.

This brings out the inadequacy of foreign exchange reserves, built on the basis of volatile capital inflows, in stabilising the domestic currency in the face of sharp changes in the direction of such flows.

The Centre should stop bragging about India's foreign exchange reserves touching a "historic high" and realise that in the era of globalised speculative finance, even such historic high reserves cannot prevent currencies from touching historic lows.

While the inflationary impact of the rupee's fall, especially in terms rising domestic fuel prices are obvious, what needs an explanation is why India's export performance has continued to remain lacklustre despite long-term nominal depreciation. Chart 2 shows the long-term nominal decline of the rupee vis-a-vis the basket of 36 currencies belonging to India's trading partners, through the nominal effective exchange rate (NEER).

It is noteworthy that the real effective exchange rate (REER) index shows divergence with the NEER from 2008 onwards, with the rupee actually witnessing an appreciation in real terms in relation to its export partners.

The divergence between the NEER and REER indices indicate that the price level in India has remained much higher than its export partners since 2008, which is one of the reasons why there has not been any J-curve effect on India's export growth and the current account balance. Nominal depreciation is therefore imposing costs while the benefits have remained elusive.

**Policy options**

Unless policy measures address the structural problems underlying India's current account imbalance, piecemeal steps like tariff hikes would fail to stall the tumbling rupee. There is an urgent need to bring down the import intensity of the growth process itself in India, besides gradually moving away from high fossil fuel dependence over the longer term. Without such a strategic shift in policies, India's external vulnerability will persist.

India ranks 4th among the top 10 NIIP deficit emerging/developing economies, with a negative net international investment position (NIIP) of $425 billion in Q1 of 2018 (*see table*). High NIIP deficits add to the external vulnerability of the emerging/developing economies, particularly for those with high net debt liabilities.

What adds to India's vulnerability is the bubble in the equity market, which now figures among the most overvalued markets across the world in terms of metrics like P-E ratios. The rupee's downslide in 2018 was a consequence of net foreign portfolio and debt flows turning negative in Q1 of 2018-19.

The domestic mutual funds have so far provided the counterweight to net selling of equities by the FIIs, through higher net purchases, which has kept the equity boom going.

However, the 10 per cent correction in the BSE Sensex in September-October 2018 after a 17 per cent climb between March-August, reflects a bubble. It is high time we imposed some curbs on volatile capital flows, which aids and abets such bubbles that trigger currency meltdowns.

Source: thehindubusinessline.com- Oct 30, 2018

HOME

*****************

# Italy, India to set up fast track mechanism to promote investments

*Will boost partnership in food processing, healthcare, aerospace and education*

Italy and India will set up a fast-track mechanism to promote two-way investments and constitute a CEO forum to intensify bilateral economic cooperation, the top leadership of the two countries has decided.

"India invited Italy to explore investment opportunities in the entire food processing value chain particularly in food processing units, equipment manufacture, skill development, research and development and quality assurance," as per a joint statement released by Prime Minister Narendra Modi and his Italian counterpart Giuseppe Conte following their bilateral meeting in New Delhi on Tuesday.

Conte, who became Prime Minister of Italy in June, is on his maiden official visit to India with a number of his top Ministers and business representatives.

Underlining the importance of economic cooperation for strengthening the bilateral ties, the two sides agreed to convene the next session of the India-Italy Joint Commission on Economic Cooperation (JCEC) in India in 2019.

Recognising the vast business opportunities in the food processing sector in India, the two sides called for greater collaboration. The leaders welcomed the setting up of an India-Italy Joint Working Group on food processing that will be convened at a mutually convenient date, the statement said.

Italy is India's fifth largest trading partner in the European Union and the annual trade turnover between the two countries was $10.4 billion in 2017-18. Over 600 Italian companies are operating in India.

Conte also participated in the India-Italy Technology Summit, which is being organised by the Department of Science and Technology (DST) in partnership with the Confederation of Indian Industry.

The summit focusses on a number of areas including healthcare, aerospace, education, clean technology, renewable energy and information and communication technology.

A large business delegation from Italy will visit India soon to look for partnerships with their Indian counterparts, Italy's Deputy Minister for Economy Michele Geraci had told BusinessLine in a recent interaction.

Source: thehindubusinessline.com- Oct 30, 2018

HOME

*****************

## Bangladesh firm to operate Kolkata river terminal to promote Nepal trade

It can be a perfect example for regional cooperation. A Bangladeshi company will manage inland river terminals in Kolkata and Patna to promote Nepalese trade with and through India.

Union Shipping secretary Gopal Krishna on Tuesday, will handover Summit Alliance Port East Gateway (India) Ltd (SAPEL), subsidiary of Bangladesh's Summit Alliance Port Ltd, a 30-year right to operate and maintain two inland water jetties (GR Jetty-1 and GR Jetty-2) in Garden Reach area of the city on revenue-sharing basis.

SAPEL was selected through global tender, in 2017, for operation and management of Kolkata and Patna terminals as part of the ₹5,369 crore Jal Marg Vikash Project to promote inland river transport between Varanasi and Kolkata on river Ganga.

The Jal Marg project is a flagship plan of the Narendra Modi government to promote trade and economic activities in India and in the region by shifting cargo from costly road to rail transfers. Logistics costs account nearly 14 per cent of GDP in India against 8-9 percent in industrialised economies.

According to Inland Water Authority of India (IWAI), apart from catering the need of the eastern region of India; Kolkata terminal will particularly help movement of cargo from Kolkata to Nepal.

Due to geographical proximity (700 km), bulk of Nepal's third country trade is route through Kolkata. However, costly road and rail transport between Kolkata and Nepalese gates inflates the overall trade costs of Nepal substantially.

Inland water can bring a multimodal solution by transferring goods from Kolkata port to Patna at 24 percent less cost than road and four percent less cost than rail. From Patna goods can take road or rail route for the residual 200 km journey to Nepal.

The cost-dynamics will be highly favourable to river transport as more and more return cargo is available from Patna to Kolkata.

According to IWAI, on completion the Jal Marg project will shift of 55 percent road and rail cargo, between Varanasi to Kolkata, to river. The potential of Kolkata-Nepal cargo (via Patna) is estimated at 44,000 container boxes (TEU). The down stream cargo from Patna to Kolkata is estimated at 12,000 boxes.

Clearing cargoes by the river route will also help Kolkata Port authorities decongest operations and improve cargo handling. The river terminal can also act as a feeder port to Dhamra.

In the final analysis the project will bring down logistics costs in the region and put competitive pressure on the viability of the proposed Nepal-China rail link which is crucial for the success of Nepal's bid to use Chinese ports for third country trade.

Source: thehindubusinessline.com- Oct 30, 2018

HOME

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# Arvind to list brands, engineering businesses by January 2019

The listing of the brands and engineering businesses of Arvind will be done in January 2019, Kulin Lalbhai, executive director, told a news channel on Monday.

The textile major last week received the National Company Law Tribunal's (NCLT) approval for the scheme of demerger of its branded apparel and engineering businesses into separate entities.

On Monday, shares of Arvind closed at Rs 334.35 on the BSE, up 4.11% from its previous close. Shareholders of Arvind will be entitled to one share of Arvind Fashions for every five shares held and one share of Anup Engineering for 27 shares held. At present, three companies are managed as separate entities.

Last year in October, Arvind announced that it would demerge its branded retail and small engineering businesses. Post demerger, there will be three different companies — Arvind Ltd, Arvind Fashions and Anup Engineering.

The company has guided for a 10-12% growth in revenue in engineering business, which is debt free. Lalbhai said, "Post demerger, Arvind will continue with the textile business. Revenue growth in the coming five years is expected to be around 10-12% and capital expenditure will be around `2,500 crore."

Anup Engineering, which manufactures critical process equipment for several core industries, is a debt-free company. It reported five-year revenue CAGR of 25% and expects a 10-12% revenue growth in FY19. Lalbhai said, "Demerger or delisting will happen in next 3-4 weeks from now and the new listing will be in January 2019."

Analysts expect the company will witness better demand growth in the second half of the year compared to the first half. According to a Kotak Securities report, the brokerage has revised growth estimates of the company for branded apparel (Arvind Fashions) and textiles business (Arvind) based on assumption of slower growth rate in H1FY19.

The brokerage has assumed revenue compounded annual growth rate (CAGR) of 17% in branded apparel business, 8.9% CAGR in textiles business and 17.5% CAGR in engineering business (Anup Engineering) with EBITDA margin improvement of 200 basis points in branded apparel business, 160 basis points in textiles and 90 basis points in engineering business in FY18-20 earnings.

Based on this, Kotak Securities has cut consolidated earnings per share for FY19 by 10.4% and for FY20 by 11.8%. Kotak has a 'buy' rating on the stock. Arvind is expecting strong growth in H2FY19 backed by major festivals in October and November.

Arvind's revenue grew 10.2% year-on-year to Rs 2,861cr in Q1FY19. EBITDA was up 17.7% year-on-year to `246 crore. The EBITDA margin in Q1FY19 was 8.61%, compared to 8.1% in Q1FY18.

The net profit in Q1FY19 grew 13.3% year-on-year to Rs 64.3 crore. Revenue from the textile business grew 2.3% to Rs 1,561cr in Q1FY19, branded apparels grew 13.9% to `1,016 cr and advance material division grew 9.6% year-on-year to Rs 127 cr.

Revenue from branded apparel grew 18% year-on-year. Power Brands – Arrow, US Polo Association, Flying Machine and Tommy Hilfiger – grew 16% year-on-year.

Source: financialexpress.com- Oct 30, 2018

**HOME**

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