

IMPACT OF 'MAKE IN INDIA' ON THE DENIM MANUFACTURING INDUSTRY



Suryalakshmi Cotton Mills Limited

WHITE PAPER



Impact of 'Make in India' on the Denim Manufacturing Industry

Formulated to foster innovation in the manufacturing sector, the 'Make in India' initiative by the Government is aimed at enabling a best-in-class manufacturing infrastructure. Centred on the idea of developing India into a global manufacturing hub and attracting investments from around the world, it also aims to leverage India's tremendous export potential.

Such a programme is sorely required for the much-needed transformation of the country from a predominantly agrarian society to a modern industrial one. While an industry-focused strategy will ease the pressure off the agriculture sector, it will also strengthen India's standing in the context of a globalized and increasingly industrialized economy.

The Vision that is 'Make in India'

By 2022, rev up the manufacturing sector to

- Contribute **25%** to the national GDP
- Create **100** million jobs
- **24** manufacturing cities envisaged

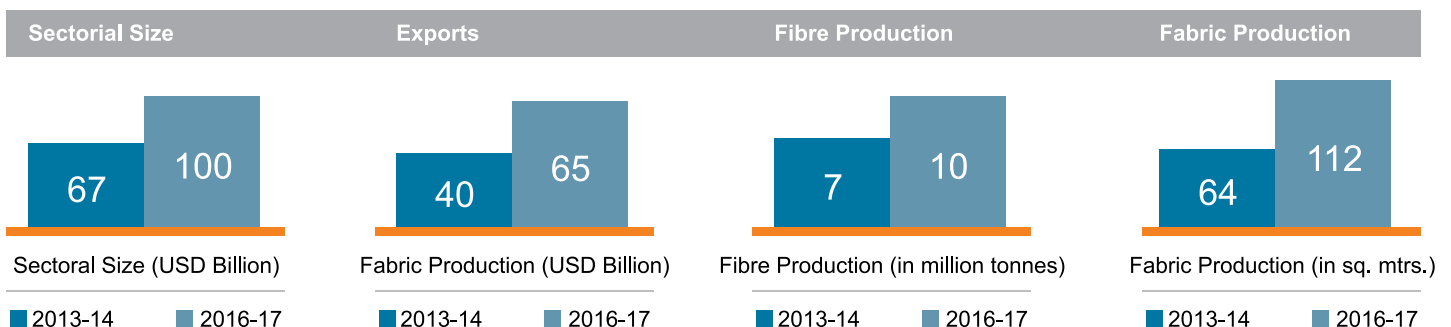
India's Textile Sector: A Synopsis

- **2nd** largest manufacturer of textiles globally
- **14%** of industrial production
- **4%** of national GDP
- Employs **45** million people
- **12%** share of the country's export basket

Make in India for the Textile Sector

The government has announced several initiatives to incentivise and support the growth of 25 sectors. The textile sector, which is an important segment of the economy of the country, features in the priority list. The significance of the sector is evident (See box: *India's Textile Sector: A Synopsis*¹). Following agriculture, it is the second largest employer in the economy besides being one of the largest contributing sectors in India's exports worldwide, underscoring the fact that the growth (See *Estimated Growth of the Indian Textile Industry*²) and all round development of the textile industry has a direct bearing on the health of the nation's economy.

Estimated Growth of the Indian Textile Industry



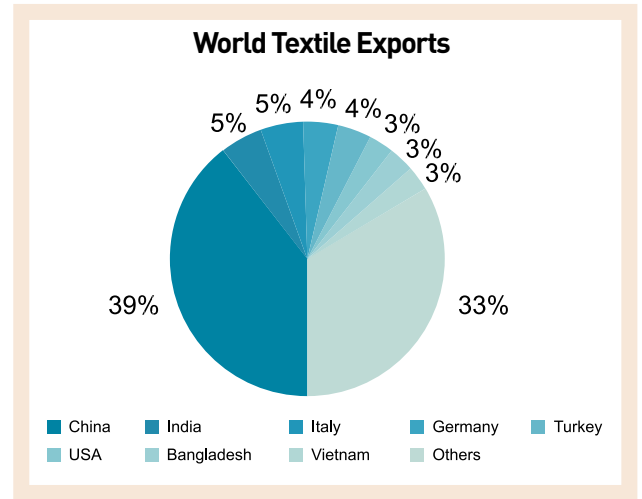
¹ http://texmin.nic.in/sector/note_on_indian_textile_and_clothing_exports_intl_trade_section.pdf

² <http://makeinindia.com/sector/textiles-garments/>

Although India is the second largest textile manufacturer and the second largest exporter globally (See graph: *World Textile Exports, 2013*³), it contributes to a minuscule ~5% of India's total exports (See graph: *Indian Textile Exports: Market Size Estimates*⁴). According to a report by UN Comtrade in 2013, India's textile

exports were estimated at USD 40 billion whereas China's were pegged at USD 274 billion.

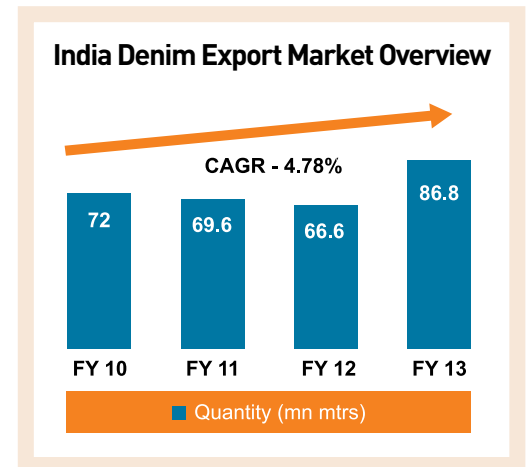
There is a huge gap in the current capacity and potential of the textile sector. The "Make in India" initiative is targeted at bridging this gap effectively while catapulting the country into becoming a textile export powerhouse.



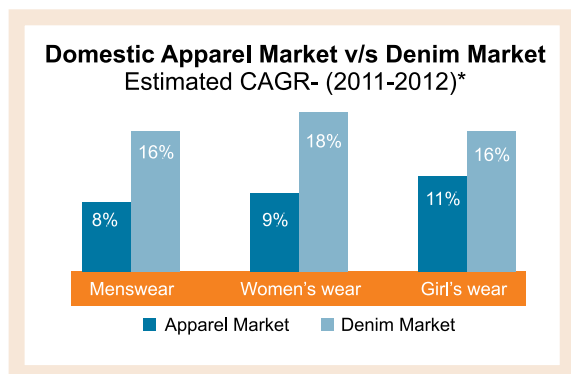
India's Denim Potential

The global market for denim is forecast to reach USD 64.1 billion by 2020. The Indian denim industry has shown continual growth over the years and currently the country boasts of a denim manufacturing capacity of around 1.1 billion metres per annum. Its utilization levels are pegged at 80-85%. Despite the impressive statistics, the Indian denim manufacturing industry contributes ~5% to the global scenario, reflecting the overall performance of the textiles industry.

However, according to industry experts, denim is the only segment in the Indian textile industry that has the potential to grow manifold (See chart: *India Denim Export Market Overview*⁵). An increasing number of global denim manufacturers are looking at India as an emerging denim export region owing to its quality standards, cost effectiveness and large pool of skilled work force.



On the domestic front, the denim wear market is driven by increasing disposable incomes, westernization of work



culture and the ensuing rise in the popularity of denim jeans as business casual wear (See chart: *Domestic Apparel Market v/s Denim Market*⁶). With increasing globalization, young India prefers denims as a part of their essential daily wear. As is true of the great Indian consumer story, the middle class is driving this growth. The mid-value segment of denim wear, characterized by quality, value-for-money and increasing styling quotient is their preferred option. Denim manufacturing and consumption in India has grown at a compounded annual growth rate (CAGR) of up to 15% over the last decade and is expected to grow at similar levels over the next few years⁷.

³ Theme Paper - Texcon (2014)

⁴ India Textile Study - Wazir Advisors & PCI Xylenes & Polyesters (2014)

⁵ DGFT

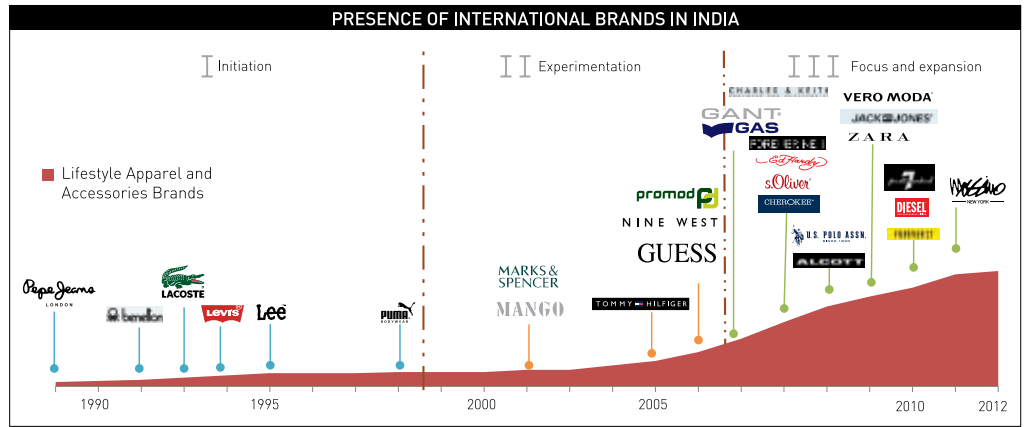
⁶ Technopak Compendium Textile Apparel (2012)

⁷ Denim Manufacturers' Association



Challenges Faced by the Sector

India offers numerous advantages to denim manufacturers. It is among the handful of countries that has a presence across the textile value-chain – from cotton production to garment production. In addition, it has a huge skilled workforce and offers quality products at competitive cost. To remain competitive in the global markets, most textile companies have adopted global standards of safety and environment compliance. Additionally, the country’s demographics with an expanding purchasing power and modernizing fashion sense (See chart: *Presence of International Brands in India*⁸) contributes to the sector’s growth. In fact, India has been ranked as a top destination for retail investments among 30 global emerging markets. However, despite the Indian denim manufacturing industry witnessing rapid growth in the last 4-5 years, technological expertise is still an issue.



Additionally, the country’s demographics with an expanding purchasing power and modernizing fashion sense (See chart: *Presence of International Brands in India*⁸) contributes to the sector’s growth. In fact, India has been ranked as a top destination for retail investments among 30 global emerging markets. However, despite the Indian denim manufacturing industry witnessing rapid growth in the last 4-5 years, technological expertise is still an issue.

For the “Make in India” initiative to be successful for the textile sector, it is important that the government provides specific impetus for the growth of the indigenous denim industry. The technological integration of the manufacturing process coupled with capacity build-up can result in a rise in production of the fabric leading to enhanced domestic consumption and exports.

Existing Regulatory Framework Review

To upgrade technology, the government already has a number of policies in place:

- **Technology Upgrade Fund Scheme:**
 - Aimed at modernization and upgrade of technology in the textile sector by providing credit at reduced rates and capital subsidies
 - Investments worth over INR 2,500 billion in the industry
 - Scheme for Integrated Textile Parks
 - Provides world class infrastructure to new textile units
 - Till date , 57 Textile Parks have been sanctioned with an investment of INR 60 Billion
 - By 2017, 25 more Textile Parks are to be sanctioned
- **Integrated Processing Development Scheme**
 - Aimed at sanctioning processing parks
 - INR 5 Billion has been earmarked

Besides these schemes, the government also provides the industry with support for continuous technological upgrade under the TUF scheme. Despite these incentives, India is not a primary outsourcing hub for denim manufacturers. The future of the Indian denim industry lies in product intelligence and investments in greater technological enhancement.

Conclusion

The Indian denim industry stands to benefit immensely from the ambitious “Make in India” initiative. The vision of the programme has the potential to overhaul the segment’s perception and the country’s contribution in the world denim scenario. However, to turn this vision in to reality, India’s denim manufacturing segment needs to be equipped with facilitating mechanisms. Even more important is the effective implementation of these mechanisms. Once this is done, the strength of domestic Indian denim markets as well as its denim export capabilities will remain unparalleled.

⁸Worldwear Brands - Technopak