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can show you
the way**



CARE Ratings

Professional Risk Opinion

CREDIT ANALYSIS & RESEARCH LIMITED

Presentation at the 5th Asian Textile Conference

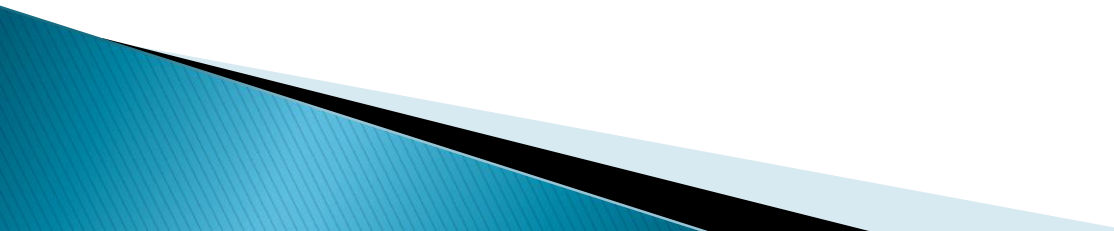
Outlook for Textile Industry A Rating Agency Perspective

D R Dogra
Managing Director & CEO, CARE Ratings


March 17, 2011



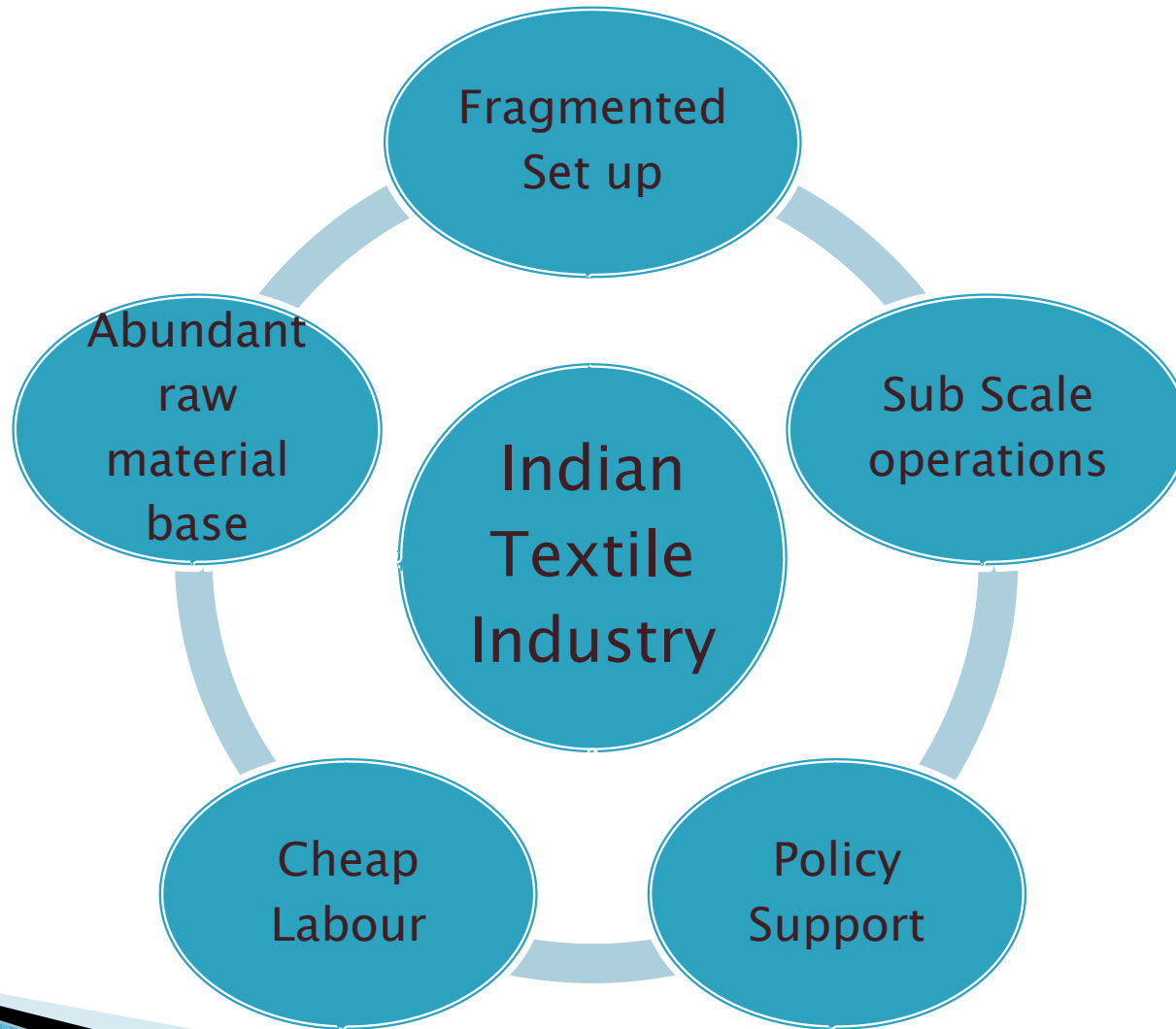
Agenda

- ▶ Perspective on the Indian Textile Industry
 - ▶ Characteristics of the Industry
 - ▶ Demand Drivers
 - ▶ Health of the industry players
 - ▶ Outlook
- 

The Indian Textile Industry

- ▶ Market size estimated to be \$55 billion in FY10, 64% of which is domestic demand.
 - ▶ Diversity in terms of raw material base and products manufactured.
 - ▶ Cotton is the fibre of preference.
 - ▶ Contributes to 4% of GDP and 12% of country's export earnings.
 - ▶ India was anticipated to be one of the major beneficiaries in the quota free regime
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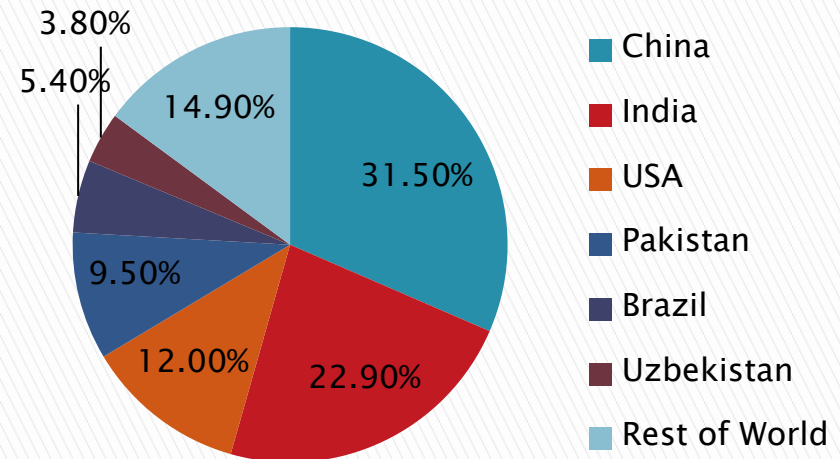
Characteristics of Industry



Abundant raw material base

- ▶ Second largest producer of cotton next only to China
- ▶ India's share of cotton in the world cotton production is 23% as against China's share of 31%
- ▶ Second largest producer of man made fibres in the world
- ▶ Seventh largest producer of Wool
- ▶ Second largest producer of Silk with 14% share of global production

Cotton Production by major countries (2009–10)



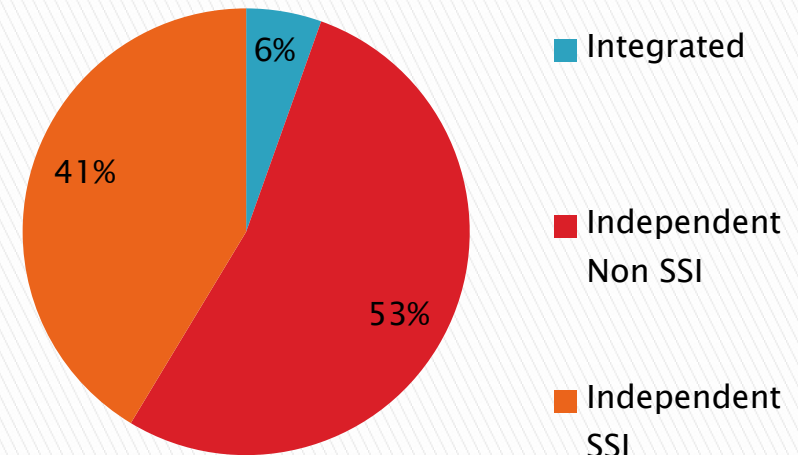
Source: Ministry of Textiles

Fragmented & low level of integration

▶ Highly fragmented Industry

- Only 180 of 1853 spinning mills (non SSI) are composite units
- Organised players constitute only about 3% of weaving segment
- Processing sector characterised by many small independent processors
- Small scale units dominate the apparel industry
- Average spindelage of about 21600, even spinning segment lacks scale

Installed capacity of spinning mills



Source: Office of Textile Commissioner

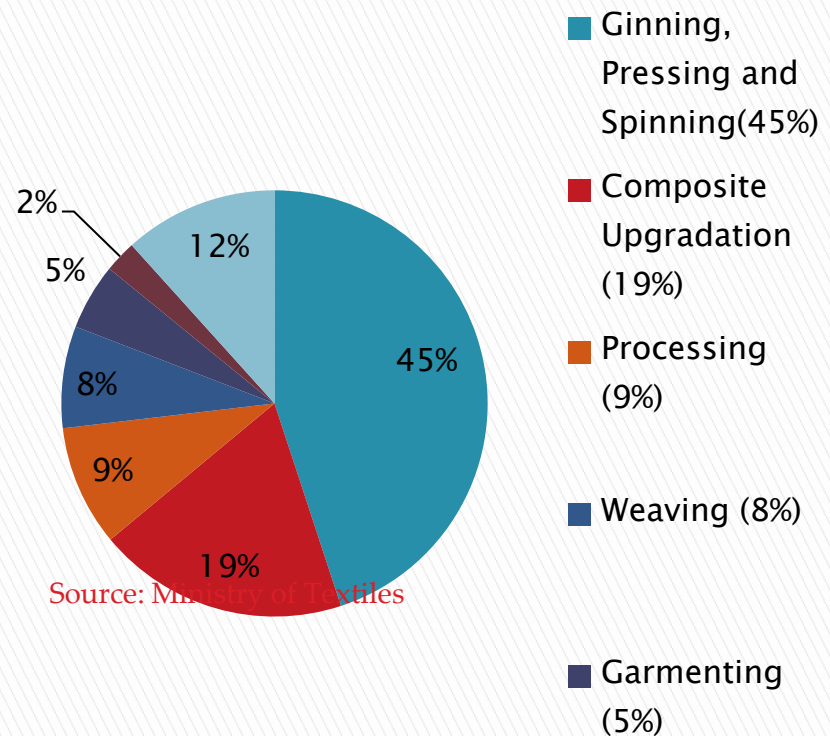
Cost competitiveness

- ▶ Diverse and abundant raw material base
- ▶ Abundant supply of skilled labour across all activities of value chain, but, inflexible labour laws
- ▶ High power costs & power supply problems
- ▶ Fragmented industry – existence of several intermediaries resulting in long lead time and cost inefficiency

Weak links

- ▶ TUFS largely benefitted Spinning while level of modernisation is still low in other segments of the value chain
- ▶ Stricter emission norms coupled with lack of modernisation resulting in many processing units facing threat of closure
- ▶ Issues in relation to availability of working capital for small players

TUFS Spending Segment wise

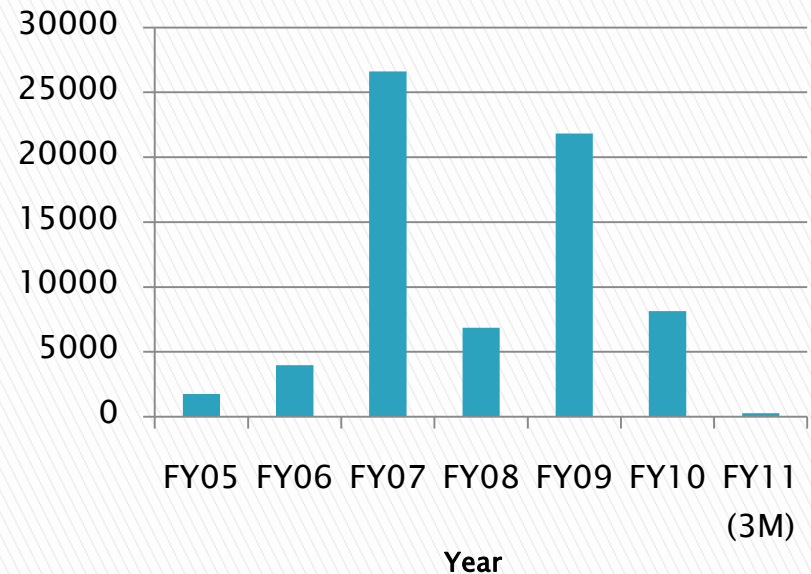


Source: Ministry of Textiles

Policy Support

- ▶ Extension of TUFS and policy changes to address the specific needs of different segment
 - Cumulative investment of Rs.74,627cr so far.
 - Budgetary allocation of Rs.2980cr subsidy in FY12

**TUFS Spending Year wise
(Rs.cr)**



Source: Ministry of Textiles

Policy Support

- ▶ Scheme for integrated textile parks
 - 40 projects sanctioned / 25 are in operations / \$736mn invested
- ▶ 100% FDI under automatic route
- ▶ De-reservation of garments / knitwears
 - Adverse effect of several historical regulations still seen

Demand Outlook

Improving
demographics

Increase in
income levels

Penetration
of retailers

Demand Outlook

Increasing
sourcing shift to
Asia and Africa

Suitable
alternative to
China

Growth in
US and
Europe



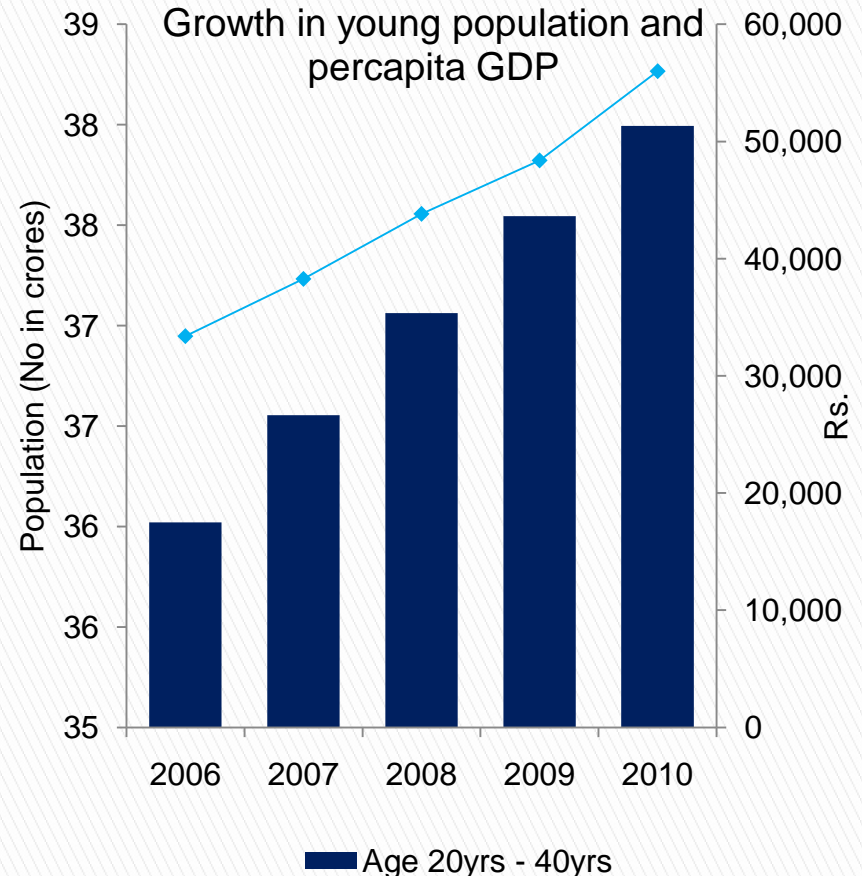
Vibrant Domestic Demand

▶ Favourable demographics

- More than 32% in the age bracket of 20yrs–40yrs
- Proportion of working population to old people and children is one of the best in the world

▶ India's per capita income, grew by 15.7% in 2009–10

▶ India has been ranked as one of the top retail destination globally for investment attractiveness among 30 emerging markets



Exports from India

US Imports	CY2010 (Mn USD)	CY2009 (Mn USD)
Total	93278	81005
China	41.2%	39.2%
Vietnam	6.7%	6.6%
India	5.8%	5.7%
Pakistan	3.3%	3.4%
Bangladesh	4.3%	4.4%
Indonesia	5.0%	5.0%

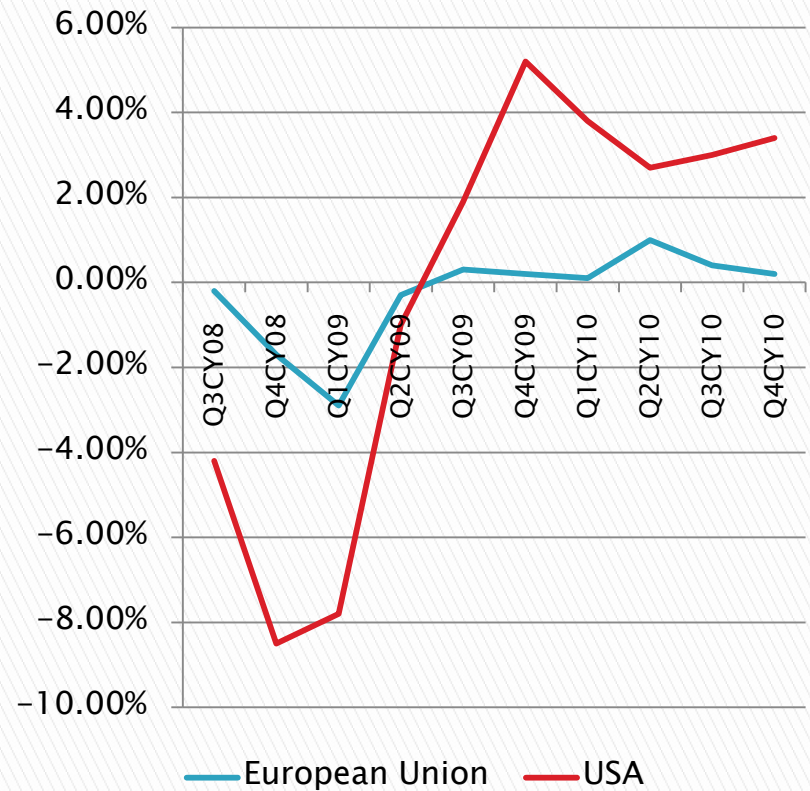
Exports	2009-10 (Million USD)	2008-09 (Million USD)	% Growth
Fibre	2481	960	158.5
Yarn	2701	2487	8.6
Fabrics	3712	3370	10.1
RMG	10720	10957	(2.2)
Madeups	2459	2353	4.5
Others	1347	1323	1.8
Total	23420	21450	9.2

Source: Ministry of Textiles

Export Potential

- ▶ India's share of world trade in textiles is just over 4.0% at present
- ▶ Long term outlook
 - Increasing sourcing shift to Asia
 - India a best alternative to China for global buyers
- ▶ Immediate outlook
 - Growth witnessed in Europe and USA in the past three quarters :- improved export outlook

GDP Growth rate(%) in USA and EU



Performance of CARE rated companies

▶ After facing unprecedented challenges in FY09, industry has revived primarily supported by recovery in domestic demand followed by pick up in exports since Q3FY10

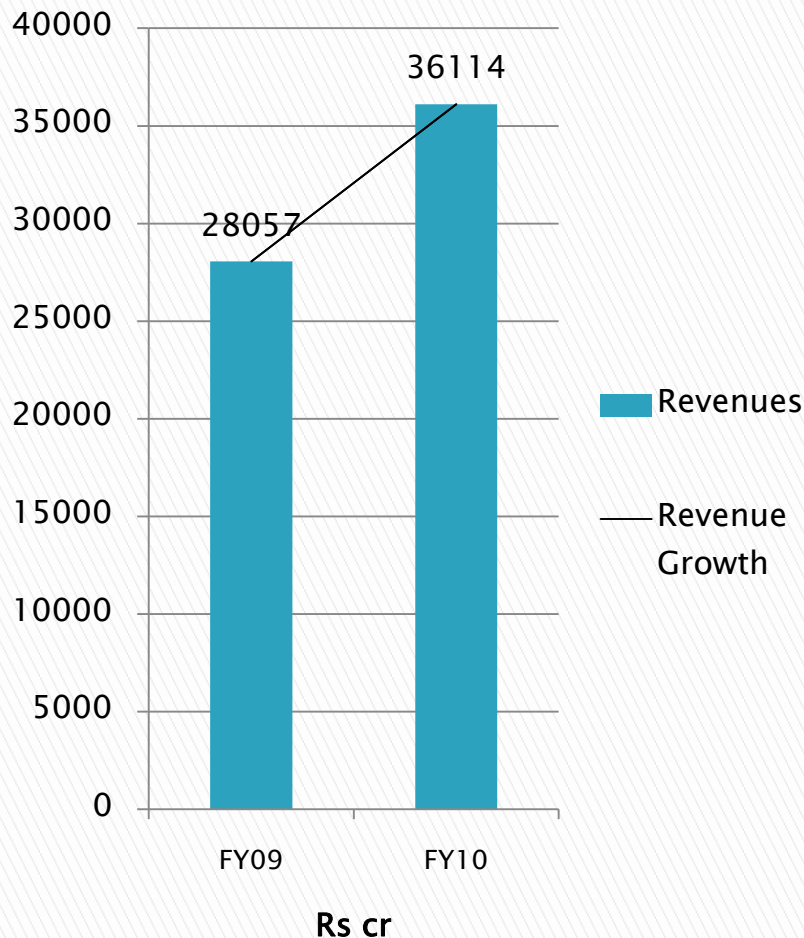
❑ Positive revenue and earnings trend

❑ Resurgence in margins

❑ Overall improvement in Credit Profile

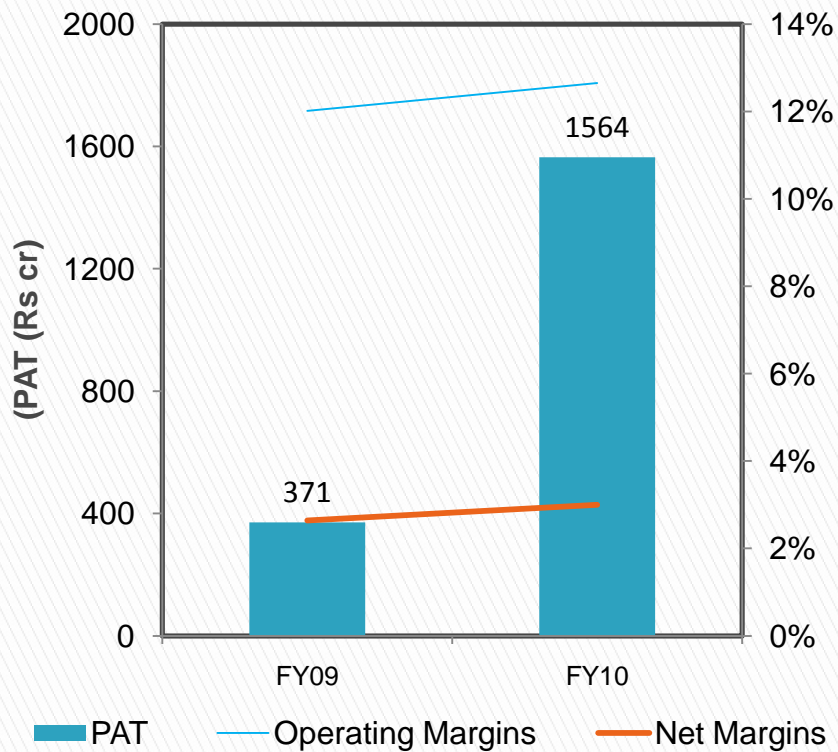
▶ *(Sample size – 62 investment grade companies rated by CARE)*

Growth momentum



- ▶ Robust revenue growth of during FY10 from subdued performance in FY09
- ▶ The momentum continued in 9MFY11
- ▶ The average growth rate was 28% with integrated players witnessing a growth rate of 44%

Earnings momentum

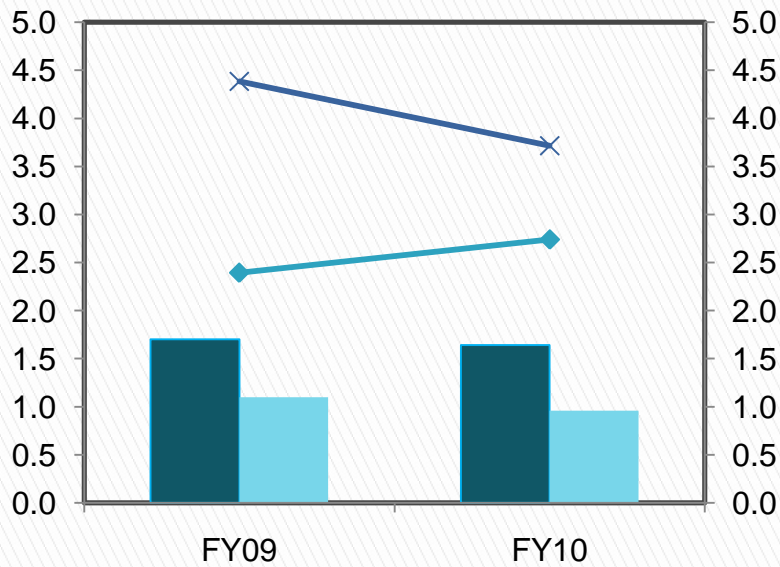


- ▶ Net profit increased by 322%
- ▶ Spinning and Integrated players were the most benefitted segments in FY2010
- ▶ Performance of Garment companies impacted by higher yarn prices

Earnings momentum

- ▶ Improvement witnessed in capacity utilisation
 - Units commissioned at peak of recession remained largely unutilised in FY09
- ▶ Improvement in Asset Turnover
- ▶ Improvement in margins
 - Poor volume and realisation had impacted margins of players across the value chain in FY09
- ▶ Projects which were put on hold have been revived

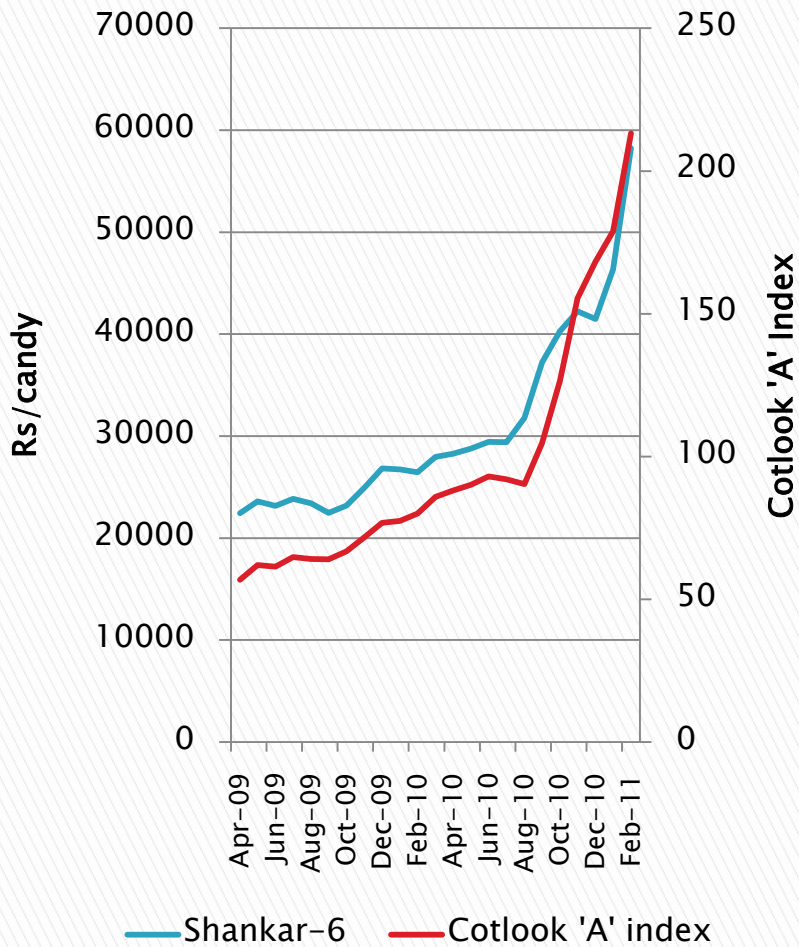
Credit Risk Profile



Overall gearing
Debt - equity ratio
Interest coverage
Term Debt / GCA

- ▶ Improvement in debt servicing indicators
- ▶ Marginal decrease in overall gearing
- ▶ Further improvement in credit profile witnessed in 9mFY11
- ▶ Healthy cash accruals reported in 9MFY11 eased some liquidity pressure

Historic cotton cost



- ▶ Rise in cotton prices continuously since Apr 2009 and steep rise since August 2010
- ▶ Prices of MMF such as polyester and acrylic have risen by 50% in the last nine months
- ▶ Raising concerns on sustenance of revived profitability of players across the value chain

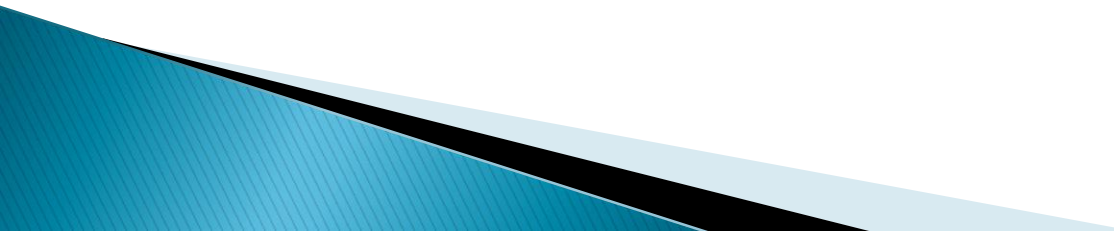
Credit Outlook

- ▶ Volume growth expected to continue
- ▶ Growing need for incremental working capital
- ▶ Cost pressures from increasing manpower cost and material cost expected
- ▶ Most players had restructured debt year before
 - Ballooned repayments are coming
- ▶ Extent and funding mix of capex programme would be watched
- ▶ Volatility in the key raw material prices continue to dictate the financial health of companies. Integrated players may stand to benefit and see more stable earnings.

CARE Ratings

Second Largest Rating Agency in India

About CARE RATINGS

- ▶ Three largest shareholders are IDBI Bank, Canara Bank & SBI
 - ▶ SEBI & RBI recognition.
 - ▶ ECAI recognition for Basel II by RBI
 - ▶ Completed 8,989 rating assignments having aggregate value of about Rs. 28294 billion (as of December 31, 2010)
 - ▶ Capable team of analysts
 - ▶ Strong in-house industry research team covering 24 sectors
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An *External* Rating Committee

Mr. Y. H. Malegam <i>Chairman</i>	Former Managing Partner – S. B. Billimoria & Co. Member of the Board of Directors of a number of companies and organisations including the Reserve Bank of India
Mr. V. Leeladhar	Former Dy. Governor, Reserve Bank of India
Mr.P. P. Pattanayak	Former Managing Director of State Bank of Mysore. Former Dy. Managing Director & Chief Credit Officer of State Bank of India.
Mr. V.K. Chopra	Former Wholetime Member of Securities & Exchange Board of India and Chairman and Managing Director of Corporation Bank.
Mr. D.R. Dogra	Managing Director, CARE Ratings

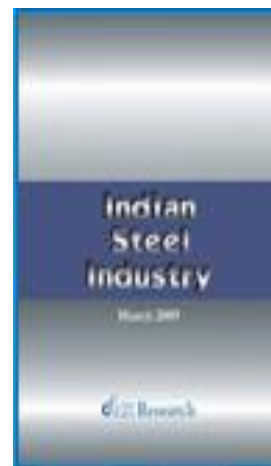
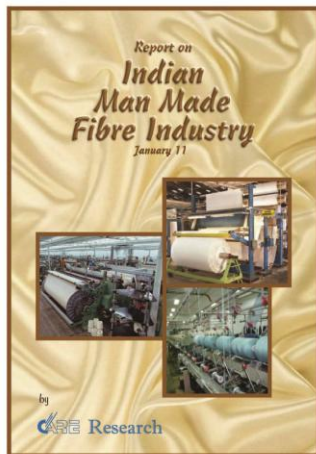
CARE's ACHIEVEMENTS

- ▶ Dominant Position in many sectors including Textiles
 - ▶ Dominant Position in Financial Sector Ratings
 - ▶ Leadership Position in Structured Finance
 - ▶ Leadership Position in Sub-Sovereign Ratings
 - ▶ Leadership Position in IPO Grading
 - ▶ Domestic Rating Agency with International footprints
 - ▶ Comparable Transition Matrix
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Achievements

Research

Research now covering 24 sectors with monthly and quarterly updates



Thank You!