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Speech of
Shri Naishadh Parikh, Chairman
CONFEDERATION OF INDIAN TEXTILE INDUSTRY

at the 58th Annual General Meeting
held in Mumbai
on Wednesday, September 2016

CITI

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

Address of Shri Naishadh Parikh, Chairman at the 58th Annual General Meeting

Good afternoon....

My colleagues on the dais, Past Chairmen, Chairmen of Export Promotion Councils, Chairmen of Regional Associations and Members from the Industry.

It is my privilege to address you at this very critical juncture for the Indian textile industry. Before I get down to specific changes, opportunities, and challenges for our industry, let me give you a sense of the current global and Indian business environment, and the likely shape of things to come within the next few years (and certainly within the next decade).

As you are aware, it has now been almost 8 years (since the collapse of Lehman Brothers in 2008) that the world economy seems to have nearly stalled. Growth, if any, has been anaemic in most of the major developed economies that include the USA, UK, EU, Japan, and Russia. China, while growing significantly, has seen its growth come down to 6–6.5% levels from the 8-9% levels in the 2000's. Further, this growth has not been even in most of these countries with the top-1% (and then the top-10%) of the populations of the developed nations cornering bulk of this low growth.

The second big change driver is the aging population in most of the developed nations that, among other implications, does not bode well for the consumption of lifestyle consumer products such as textiles.

This is confirmed by certain article titled“Clothes buying goes out of fashion in the UK” published by Financial Times, London on 24th September 2016. It further emphasises the importance of domestic markets and select markets in emerging economies.

The third big change driver is the incredible impact of various technological changes in our world. Uber, for example, has earlier this month (in September) launched its first (relatively small) fleet of driverless cars in Pittsburgh (USA). The most valuable companies in the world are those who did not exist 2 decades ago such as Amazon, Google, Facebook, Alibaba, and Tencent.

There are others who do not own physical assets such as Airbnb and Uber, and yet are competing with older, most established players such as Starwood Hotels and Hertz. 3D printing is already making its presence beyond rapid prototyping in diverse applications such as human body parts, and aircraft components. Internet of Things (IOT) and Artificial Intelligence (AI) platforms such as Watson from IBM are already making their presence felt in diverse industries that include law, healthcare, and financial services. Indeed, the world now faces the twin threat of low/no growth, and destruction of hundreds of millions of jobs because of automation and AI.

On account of these changes, even Democracy, as we have known since the signing of the Magna Carta in the 13th Century, is no longer able to manage expectations of the masses. Free trade is giving way to protectionism and bilateral trade agreements that attempt to balance the trade balance between various participants. Many countries are now resorting to more frequent interventions through antidumping duties and other tariff / non-tariff barriers.

The rise of terrorism across the planet is creating a new wave of xenophobia in some of the most liberal countries that include France, USA, UK (and its recent Exit decision from EU), and the more recent losses of Angela Merkel's party in Germany where the rising tide of immigrants is making the native masses very nervous.

Unfortunately, our world will see more of the same in the coming years and decades and there are no obvious, simple solutions in sight.

India's economic prospects certainly look far more encouraging, and we should see steady growth and increase in prosperity (and a more equitable distribution thereof) in the coming years. However, India also faces its own plethora of challenges that include a poor education system (in qualitative terms), rise in numbers of unskilled workforce, very poor healthcare system (in terms of access, affordability, and accountability), dysfunctional urban infrastructure, and a democracy which has feudal, family owned enterprises masquerading as regional and national political parties.

Coming to our textile industry, it is, therefore, no surprise that due to some of these factors (and some more), not only the global trade growth in textiles has slowed down appreciably but there are parts of the value chain that are showing negative growth rates such as yarns followed by fabrics. Most of the trade growth is only seen in readymade garments and made ups.

While India has donewell in made-ups/garments in recent years, it has lagged behind competitors such as Bangladesh & Vietnam which now boast of apparel exports that are comparable (i.e. Vietnam) or significantly higher (i.e. Bangladesh). While China's textile juggernaut is slowing down, nevertheless China remains the world's giant by far.

New significant competitors are likely to emerge such as Cambodia and Ethiopia within the next decade. Most of these new competitors such as Bangladesh and Vietnam are also benefiting substantially from very favourable market access for their textile products in markets such as the USA and the EU. As some of them such as Bangladesh and Vietnam verticalize backwards into spinning/knitting/weaving/ processing, they will pose an even bigger challenge to India.

On a more micro level, there is a very clear and steady trend in change in Fibre-mix. The world is moving to 35:65 in favour of MMF led by new developments and innovations in MMF and processing of MMF fabrics.In contrast with the world trends, India has only marginally moved up from 65:35 Cotton-MMF to 58:42 Cotton-MMF composition of its textile industry.It is an absolute imperative that if Indian textile industry has to grow (both for exports and for domestic market), then Fibre neutrality is an absolute must.

Indian textile industry also suffers from multiple other structural weaknesses. Due to various reasons, most notably an adverse Government policy that was in place from early 1980’s, from the time of the Datta Samant led strikes and until as late as late 2000’s when garment manufacturing was still reserved for small scale (and multiplicity and irrationality of excise duties on different parts of the fibre - garment value chains), Indian textile industry suffers from a very visible lack of scale at present. There are just a handful of textile (some include garments too) companies that have revenues in the vicinity of a billion US dollars.

A very substantial part of the organized textile industry is characterised by companies whose revenues are in the range of US$ 100 million – US$ 250 million, and many are still in the sub-US$ 100 million revenue range.India’s apparel exporters do not fare much better with just a handful of exporters having revenues in excess of US$ 500 million.A vast majority of apparel manufacturer – exporters are clustered around US$ 25 – US$ 75 million size, and the domestic market catering apparel manufacturers are even smaller.

To compound the challenge further, our industry also has the dubious distinction of having amongst the highest NPAs in the country. Beyond the NPA ridden companies, there are many whose balance sheets are highly leveraged and therefore their ability to raise further capital for scaling up is very limited or even non-existent.

India has not created new mega clusters for textiles and apparel, something that China has done very successfully over the last 20 years. The existing clusters such as Tirupur, Salem, Panipat (in addition to Bangalore, NCR etc.) suffer from abominably bad infrastructure that limits their growth potential.

In this environment and with these ground realities, while the Government and various external agencies continue to set very ambitious targets for the growth (both for exports as well as for domestic market) of the overall textile industry, it is very unlikely that any of these targets (export and domestic) will be met unless the industry comes together as a whole without continuing to fragment itself on fibre / region / handloom-powerloom-mills etc. and in the process, sometimes work at cross-purposes with each other. Indeed, the Industry should partner and collaborate instead of take a confrontational attitude.

As far as cotton specifically is concerned, while it is blessed with a free trade regime with few physical or tariff barriers, we have to keep in consideration that cotton (along with rice and sugarcane) is a water intensive crop.Climate change induced changes in weather / water patterns, and government's more recent interventions in increasing the MSP for other crops such as pulses, we can no longer take for granted that Indian government (and Indian farmer) will continue to support the acreage currently under cotton cultivation.

Indian Textile Industry needs to accept the realities and change in dynamics of global textile trade and investment destinations driven by competitiveness and trade preferences. At the same time, it must also acknowledge the increasing domestic market opportunity but with a new vision to create many more Indian clothing and made-ups brands so that the textile and garment manufacturers do not remain merely suppliers to global brands that have entered India (and more will come as the Indian market's attractiveness increases).

If Indian textile and garment manufacturers have to improve their competitiveness and their profitability, many should now think of moving up the value chain and create their own brands. Many should also take advantage of the very rapidly growing e-commerce retail channel which is already seeing a big growth in consumer interest in buying clothing & footwear online.

All of us (including the Government of India) are well aware of the very critical relevance of a successful and growing textiles and garment sector. It directly and indirectly provides much needed employment to tens of millions of Indians (including farmers) and these employment numbers can well cross 100 million in next 5-7 years with the right actions both from the industry as well as the central and state governments. In a time where India's exports are under tremendous pressure, textile sector still offers the promise of giving India's exports a much needed boost. Indian textiles have a long and enviable heritage. It is one of the few products that can be "Made-in-India" for India and rest-of-the-world not only as private labels to local and international brands and retailers, but indeed, as Indian branded goods.

In this background, ladies and gentlemen, I strongly believe that it is high time to give a very serious thought to reinventing our Confederation.

It has done well since its inception, but it can do much more. Indeed, all its members should expect it to do much more.The Gov't expects it to do much more too, and if were to exaggerate a bit, even the nation expects it to do much more.

I would therefore like to suggest the following to the members:

Vision & Mission of CITI:

Vision: To be the preeminent voice of India's entire textile industry ecosystem (all fibres, all kinds of spinning, knitting, weaving, processing, and garments/made-ups) and influencers for textile & garment machinery manufacturers, suppliers of auxiliaries such as dyestuffs, and others such as textile machinery / production component and accessories makers e.g. zippers, buttons, yarn cones, etc.

Mission: To provide authentic industry statistics, provide key business trends to its members – for domestic and export markets, advocacy with Governments (Central, States, select overseas ones which represent largest export markets for Indian textile and garment industry products), sharing of best practices and governance norms, building "brand" of Indian textile industry both in India and abroad, human resource development for the industry, etc.

How to do so?

Come up with a new Constitution for CITI that has adequate representation of directly accepted members as well as industry associations; and has appropriate framework for membership expansion, governance, leadership, and overall management

Broadbase the membership to attract leaders in each element of the entire textile industry ecosystem/ value-chain

Broadbase representation in the apex Governing body through a transparent process of selection /election/

nomination Strengthen the Secretariat in line with leading sectoral associations such as SIAM / Nasscom /COAI (Cellular Operators Association of India) comparable leadership & support staff that also includes some researchers, economists, and other professionals

Build CITI brand professionally through suitable PR and other appropriate actions.

Funding:

To achieve all of the above, we need to raise substantially higher quantum of resources. Hence, fund raising for CITI becomes a major action agenda. The funding has to be raised both for corpus as well as for operating expenses through:

- Various categories of memberships, and also linked to slabs linked to the members' annual turnover
- Sale of statistics & reports, services, etc.
- Annual / other conferences
- Any other means

Timelines:

Ladies & gentlemen, I propose the following timelines for us to put this action in place:

Drafting and approval of new : 6 months Constitution

Up-gradation of Secretariat calibre : 6-9 months (concurrent with new Constitution development work)

Post Adoption of new Constitution, we have to work on:

- Expansion of membership
- Election / nomination of new leadership

The transformation process would begin post development and adoption of the new Constitution.The process of expanding membership may be slow to begin with but focus should be on communicating changes, transformation and new vision and mission.Such a transformation would make CITI eligible to be counted as an Apex National Organisation.

I would like to conclude by reiterating that Indian textile and garment industry has done very well in the last 3 decades despite many challenges that it has faced on multiple fronts that have include government policies, restrictive trade practices including quotas, competition from China and others, etc. etc. However, I hope that all of us would agree with me that it has the unique potential to do much more and thereby make it one of India's most vibrant industrial sectors having multiple positive impact areas, while creating many more entrepreneurs and creating more wealth for the current players in this very vast ecosystem.

Fortunately, the Government of India, led by the Prime Minister himself, now has a much sharper focus on the potential of India's textile sector and CITI can work in a very conducive and encouraging environment with various ministries including the Textiles Ministry at the centre, and with almost all the major State Governments to come up with more pragmatic and supportive policies. Implementation of GST will provide additional support in defragmentation of the sector and will give it a further fillip.

We can do it, provided all of us put our minds and efforts together to make it happen.

Thank you.

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