

BUSINESS CONFIDENCE SURVEY REPORT

A Textile Industry Perspective
(April - June 2005)

by

Yarns *and* Fibers.com

Chapter 1: The Indian Textile Industry

India's textile sector is the country's second largest industry, after agriculture. The Rs.1,000 billion (US\$ 25 billion) industry accounts for 20 per cent of the country's industrial output and provides direct employment to about 35 million people. It is also the highest foreign exchange earner, accounting for 35% of the gross export earnings in trade.

With over 39 million spindles, 468,000 rotors and 1.70 million looms, India has almost 19 per cent of world's spindleage. The spinning sector has kept itself healthy through timely investments and technology upgradation. However, processing and finishing segments are still the weakest links in the Indian textile industry today.

Trade restrictions until 31 December 2004 had kept the Indian textile industry from growing to newer heights it is capable of. But all that changed from 1 January 2005 with quota-based restrictions for textile exports to the USA and European nations were lifted. The textile industry now has the opportunity to realize its full potential. The sector is already eyeing an export target of \$50 billion by 2010 from the current \$13 billion mark.

But with quotas removed and globalization in full swing, the market is now exposed to global competition. Indian manufacturers and exporters now have to compete with the global players and also face emerging tariff and non-tariff barriers. Yet with its speed of operation, skill, quality of products and low-cost labor, the industry is gearing up to reap rich rewards in the new era.

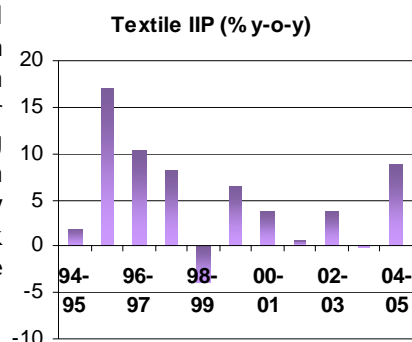
In 2004-05, production of textiles increased by 8.8% over the previous year (measured in terms of Index of Industrial Production, Central Statistics Organization). This growth was led by 18% increase in the other textile product group, including apparels. During the last decade, textile production grew handsomely in the second half of 1990s when it posted a growth of 7.4% per annum. This growth rate halved to 3.4% per annum in the last five years, with only 2004-05 recording the highest growth of 9%.

Introduction

Spindles	39.03 mln
Rotors	468,000
Looms (Org)	137,000
Powerlooms	1.69 mln
Handlooms	3.89 mln
Rotors	400,000
Looms	125,000
Share in world (spindleage)	19%

Performance of Textile Industry

The performance of cotton textile segment was dismal in the last five years period. Production declined on three occasions, while the entire period saw production growing by a mere 0.5% per annum. On the other hand, production of other textile products, including wearing apparels, increased significantly by 14% in 2002-03 and repeated the feat in 2004-05 by increasing at 18.2%. Man-made fibers, wool and silk segment grew by modest 4.5% per annum during the 5-year period 2000-01 to 2004-05.



Financial results of 78 textile companies (Economic Times Study) for the year ended March 2005 indicate that net sales grew 16.5% during 2004-05 and net profits were up 44%. Net sales aggregated Rs.19,100 crore. Of this, net sales of cotton textile companies was Rs.8,730 crore, man-made fibers Rs.7,000 crore and other textile products including garments was Rs.3,400 crore. Total expenditure of these companies increased 18% even though interest outgo had declined by 11%. Wage bill increased by 13% during 2004-05, implying increase in employment and hiring skilled manpower.

	(Rs. Bln)							
	Cotton textile		Man-made fibres		Other textiles		Total textile	
	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
Net sales	77.48	87.34	58.96	70.01	27.61	33.79	164.06	191.14
Other income	1.14	1.19	1.34	0.72	1.39	0.88	3.87	2.79
Net profit	-2.02	0.98	3.57	2.40	1.95	1.67	3.50	5.04
PAT as % of sales		1.12	6.06	3.43	7.08	4.94	2.14	2.64
Total expenditure	68.52	76.36	50.76	62.91	24.38	30.05	143.66	169.32
Wages and salar	5.14	5.54	2.68	2.79	2.64	3.46	10.47	11.80
Interest	6.12	5.01	1.55	1.43	0.80	1.09	8.48	7.54
Tax provisions	0.84	0.84	1.48	0.96	0.83	0.62	3.15	2.42

With the quotas removed, the textile trade is now free from all barriers. Exports from China and India have increased phenomenally to USA and European markets during the first quarter of 2005. Although China is way ahead of India in terms of value and volume, India has many advantages over China like availability of raw material, skilled labor and the capacity to produce high value products.

Barrier-free Global trade challenges

China, on the other hand faces challenge of being thwarted by limitation measures sanctioned by the Europe and USA. The curbs are imposed alleging damage caused to their domestic industry by Chinese cheap products. China, being the late WTO entrant had agreed for trade limitations in case their exports damages domestic industry of importing country. Even Indian textile industry fears dumping from China.

Chapter 2: YarnsandFibers Textile Business Confidence Survey

In the new quota free world, textile trade is becoming increasingly competitive. Countries like China and India are on the run to grab larger market share across the world. In this scenario, YarnsandFibers has attempted to assess the industry's perception on current and future business expectations. The underlying concept emerged out of YarnsandFibers' endeavor to discover new tools of charting growth for the industry. It is also pertinent to track the health and vibrancy of the textile industry and bring about awareness with collective efforts.

The maiden survey was conducted by YarnsandFibers to assess the Indian textile business expectations for the quarter ended June 2005. The survey was held in the last week of March and early April 2005. The survey has culminated into a Business Confidence Index for the Textile Industry. Three basic indices emerge from this survey: the **YnFx Textile Business Confidence Index**, the **YnFx Current Business Status Index** and the **YnFx Textile Business Margin Expectation Index**. While the first and last index is the measure of future expectations, the current status index is the measure of current performance for the quarter vis-à-vis the previous quarter.

The Maiden Survey

The YnFx Textile Business Confidence Index will serve as a barometer sensing the pulse of the industry and an information backbone on the latest development on a quarterly basis. The index is based on the perceptions of CEOs of textile companies and will be useful for corporate strategy and business planning, and also serve as a guide and lot more.

This index brings forth the industry's perception on future businesses and aspirations drawn from the current business status. The index derives its importance of being unique for the textile industry, while all the other business confidence surveys are done for all manufacturing industries.

The Union Textile Minister, Mr. Sankersingh Vaghela, describes the industry as "till yesterday the industry was unfortunate of being called as sunset industry, but today with a dramatic turnaround it has become the sunrise industry...."

Textile, the Sunrise Industry

The methodology and the questionnaire are appended at the end of this report. Being the first survey, YarnsandFibers is delighted by the response of textile companies, even though the sample size is just about 6 per cent in terms of value. We expect the size to increase as we progress into the next survey to be held in late June for business expectation for the next quarter (July to September 2005).

Chapter 3 The Survey Results

The YnFx Business Confidence Index for the quarter ending June 2005 stands at 86.5 on the scale of 0 to 100, where the highest is 100, at 50 the confidence is same as today and below 50 implies lower than the current level.

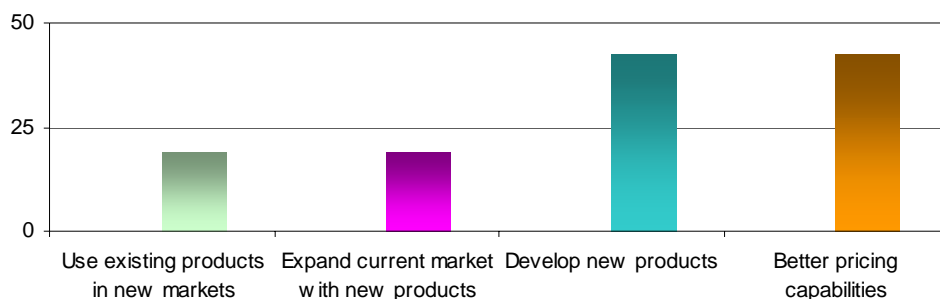
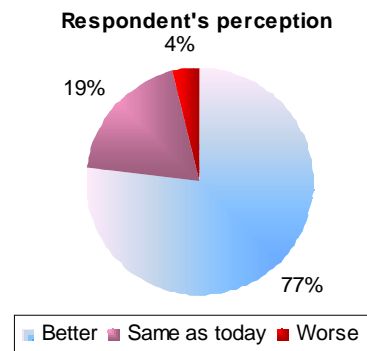
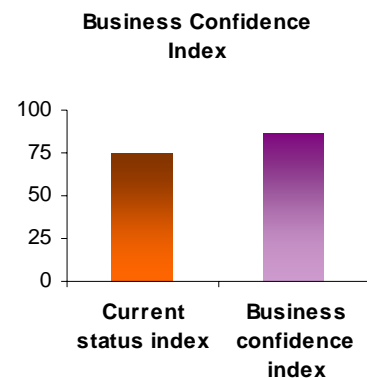
The question posed was "What do you envision about your company's performance over the next three months (April to June 2005). The respondents were asked to choose from 3 alternatives: Better, Same as today, Worse.

The confidence index at 86.5 implies that textile companies are positive about their company's performance in the quarter ending June 2005. The current business status index stands at 75.0.

Of the respondents, 77 per cent have chosen the first alternative indicating that their performance would be much better in the next quarter. While 19 per cent respondents are of the opinion that their performance would be the same or remain unchanged compared to the preceding quarter. Only 4% of the respondents believed that their performance would be worse than current status.

In terms of strategies for enhancing their company's performance, about 42% of the respondents indicated that developing new products and better pricing capabilities were the greatest sources of growth in next 3 months. While only a few believed that using existing products to enter new market and expanding current market with existing products would enhance their performance in next 3 months.

The YnFx Business Confidence Index

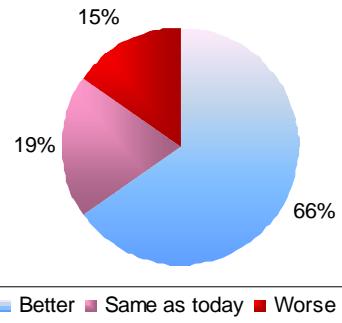


The YnFx Current Business Status Index for the June 2005 quarter stands at 75.0 on the scale of 0 to 100, where the highest is 100, at 50 the confidence is same as today and below 50 implies lower than the current level.

YnFx Current Business Status Index

The question posed was "From your perspective how is your business today (Jan to March 2005) vis-à-vis 3 months ago (Oct to Dec 2004). The respondents were asked to choose from 3 alternatives: Better, Same as today, Worse.

Respondent's Performance



The current status index at 75.0 implies that textile companies had performed much better in the quarter ended March 2005 compared to the preceding quarter. The future business confidence index stands even higher at 86.5.

Of the respondents, 65 per cent have chosen the first alternative indicating their performance was better in the current quarter (January to March 2005). While 19 per cent respondents said that their performance was the same or has not changed. About 15 per cent of the respondents fared poorly compared to previous quarter's performance.

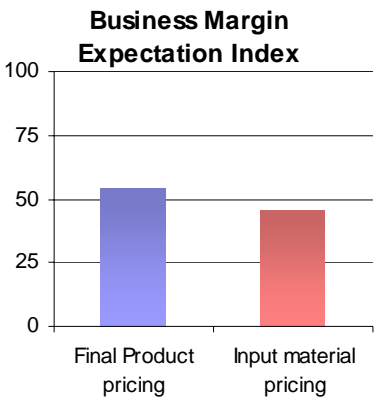
The business margin expectation index stands at 50.0 for the forthcoming quarter (April to June 2005). The index is based on responses to two questions;

YnFx Business Margin Expectation Index

"In the next 3 months, do you foresee that you will be able to price your products", and "In the next 3 months, do you see that your suppliers' price you pay will be".

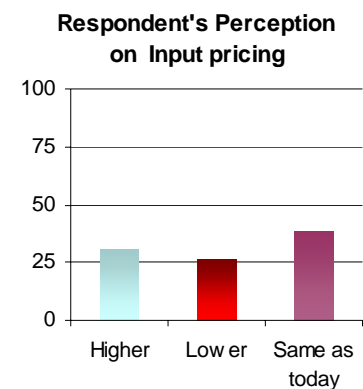
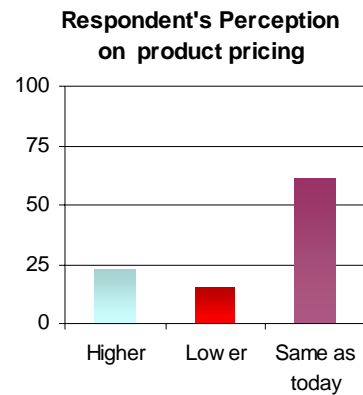
The respondents were asked to choose from 3 alternatives: Higher, Same as today, Lower.

Majority of respondents believe that better pricing capabilities were a greatest source of growth in the next 3 months (April to June). Thus, responses suggest that the companies expect greater competition with pricing accuracy and brand building.



About 61 per cent of the respondents were of the opinion that their product price would remain same as today in the next quarter while 23% believe that they would be able to sell their products at higher price. Only 15 per cent feel that their product prices would fall in the next quarter.

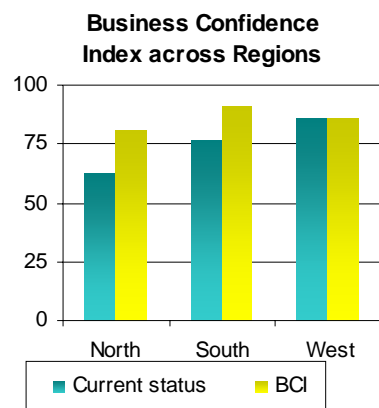
This implies that the textile companies would improve their margins through production efficiency and enhancing their brand value to either increase price or maintain at same level. This is corroborated by the response to the question on suppliers' pricing. The response is almost flat with 38 per cent saying that input price will remain the same and 31 per cent expect that it may go up. A modest 27 per cent of respondents believe that inputs price may decline.



Textile companies in North and South India believe that their performance in the next quarter (April to June 2005) would be much better than their current performance (January to March 2005). The Business Confidence Index for the next quarter stands at 81.2 for North India and 90.9 for South India as against their current status index at 62.5 and 77.3 respectively. The Business Confidence Index for textile companies in the West stands at 85.7 the same as the current status index, which was also at 85.7.

In the next quarter (April to June), 71 per cent of the western companies believe that the source for business growth would come from developing new products. While southern companies are of the view that along with new products pricing capabilities would give them growth. None of the northern companies feel that developing new product would be growth oriented.

Business Confidence across Regions



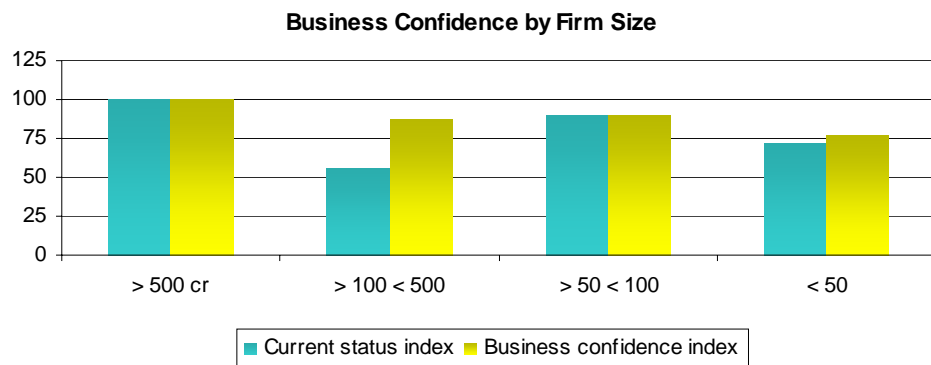
Rather than, they believe in using existing products to penetrate new markets and expand current market with pricing capabilities. Thus, most companies feel the better pricing capabilities were a must for growth.

**Business Confidence
across firm size**

Larger the size higher the expectation. Textile companies with sales turnover of over Rs.5 billion per annum, are optimist that their performance in the next quarter would be much better than the current level. The Business confidence index for companies with sales of over Rs.5 billion crore, stands at 100.0, the optimal level. For companies with sales between Rs.1 billion to Rs.5. billion crore, the business confidence index stands at 87.5, and this is a substantial improvement over their current status index which stood at 56.3 for the current quarter (January to March). The performance level remains the same for companies with sales between Rs.0.5 billion and Rs.1 billion. The business confidence index for these companies stands at 90.0 for the next quarter (April to June).

Smaller companies are apparently concerned over their performance in the next quarter in comparison with their current performance. The business confidence index for companies with sales of less the Rs.0.5 billion stands at 77.8 as against their current status index 72.2.

Large companies believe that better pricing capabilities would infuse growth in their performance in the next quarter, while a few believe in developing new products and expanding current markets are major sources of growth. Majority of companies with sales between Rs.100 crore to Rs.500 crore feel that using existing would beef their performance further in the next quarter.



Companies with sales of Rs.50 crore to Rs.100 crore are of the opinion that developing new product and better pricing capabilities would be the major sources of growth in the next quarter. The distribution of strategies is almost flat for smaller companies.

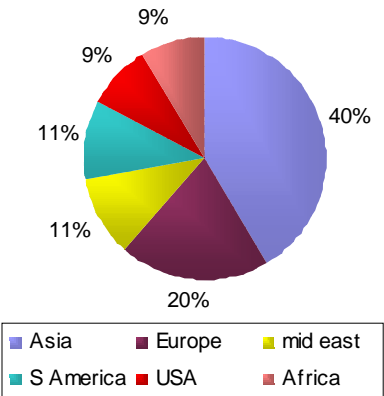
Asia is identified as a major destination for export growth by textile firms. About 40 per cent of the respondents say that Asia, including China, Korea, Japan, and Malaysia would be the major market for export growth in the next 3 months (April to June).

Where is the export market

Another 20 per cent are of the opinion that Europe was the destination for export growth. Middle East and South-America (11 per cent each) are the other destinations for textile companies. However, the largest market for textile products, the USA, is the potential export growth market for only 9% of the respondents. Another 9 per cent say that North Africa was export market in the next 3 months.

About 55 per cent of the textile companies targeting the Asian market for export growth also believe that the greatest source of growth for their company in the next three months would come from better pricing capabilities. While those target European and American markets perceive that growth performance would be in developing new products. This implies, that the European and American consumers either undergo dramatic change in lifestyle and wearing apparels or/and are quality conscious.

Major Markets for Export Growth



Chapter 4: Conclusions

Textile firms are looking forward for a major improvement in their performance in the next quarter (April to June 2005) as the prospects are apparently brighter than the preceding months. The enthusiasm is best explained in words of Mr. V K Goyal, Chief Executive of Vardhaman Spinning and General Mills (quote) "Business prospects seems to be improving, I am positive that the industry will do better in days to come".

Exports have increased with the removal of quotas and fierce competition has set in to grab a larger pie of the export market. This is revealed by YarnsandFibers maiden survey on Indian textile business confidence held in late March and early April. The three business confidence indices – the YnFx Business Confidence Index (measure of future prospect), YnFx Current Business Status Index (measure of current status) and YnFx Business Margin Expectation Index (measure of pricing input and output) - which emerged from the survey explains the enthusiasm and the strategies that textile firms believe would enhance their performance.

The YnFx Business Confidence Index for the quarter April to June 2005 stands at 86.5 as against the YnFx Current Business Status Index at 75.0 for the quarter January to March 2005. However, the YnFx Business Margin Expectation Index, which measures the firms pricing capabilities for their end-product as well as for the inputs, stands at 50.0 for the quarter April to June 2005. The index is on the scale of 0 to 100, where the highest is 100, at 50 the confidence is same as today and below 50 implies lower than the current level.

A majority of firms are of the opinion that the greatest sources of enhancing their performance will be better pricing capabilities and developing new products. Only a few believe that using existing products to enter new markets or expanding current market with existing products would influence their performance. This is true when the market is consumer driven and the taste and consumption pattern changes with lifestyle. The survey shows that large firms are very optimistic over the coming quarter performance. The YnFx BCI stands at 100.0 for large companies with sales of over Rs.500 crore. The index is lowest for firms with sales of less than Rs.50 crore.



Appendix I : Methodology

The data for the construction of YnFx Textile Business Confidence Index is derived from the responses sent back by the business firms across the country in April and May 2005. The survey questionnaire comprised 6 questions which are variables used as index components. The Questionnaire is appended at the end of this report.

In answering these 6 questions, the respondents are asked to choose one of the 3 alternatives: Better, Same as today, worse and in some cases the alternatives were: Higher, Same as today, Lower. The respondents are also asked the prospective product and pricing strategies and regions/countries, which they perceive would provide growth to their company.

These questions focus on the forecasting of business and economic conditions of over the period of next three months and current status compared to those in the previous quarter.

The sampled firms were selected from listed companies and those privately held. The respondents were mostly the business leaders, business owners themselves, or corporate executives who understood the purposes of the questionnaire and could give full co-operation. These representative firms covered a wide range of textile businesses like spinning, weaving, garment manufacturing.

In the assessment process of the responses received, the qualitative data (business views) is converted to quantitative data (numbers and points) before the sentiment index can be constructed through the application of an indexing approach called diffusion index.

The index finally derived will be an indicator of the business and economic sentiment. Highest index is 100 while the lowest is 0.

Reading of index is as follows:

1. Index of 50 means business sentiment remains stable.
2. Index above 50 means business sentiment has improved.
3. Index below 50 means business sentiment has worsened.

Computation of index comprises the following procedures:

1. Converting the qualitative data into quantitative data by scoring the responses received within the criteria below:
 - The score of 1 are assigned to the answers that show +ive sentiment
 - The score of 0.5 is given to "no significant change" answer.
 - The score of 0 are assigned to "Worse or lower" responses.
2. Adding all the scores obtained then dividing the total score by the number of respondents and multiplying the final figure by 100.
3. There are three types of indexes constructed:
 - the current status - the index derived from the current performance surveyed data
 - the Business Confidence index- the index derived from the data surveyed one three months in advance
 - the Business Margin index - the index derived from the data surveyed on product and raw material pricing.

Appendix II : Questionnaire

Business Confidence Index Survey: March 2005

1. From your perspective how is your business today vis-à-vis 3 months ago?

- Better
 Worse
 About the same

Comments ,if _____

2. What do you envision about your company's performance over the next 3 months?

- Better
 Worse
 About the same

Comments, if any: _____

3. Where do you see the greatest source/s of growth in the next 3 months?

- Use existing products to enter new market
 Expand current market with same product
 Develop new products
 Better pricing capabilities

Comments, if any: _____

4. Which top 3 regions / countries do you see export growth to come from for your company in the next 3 months?

1. _____
2. _____
3. _____

Comments, if any: _____

5. In the next 3 months, do you foresee that you will be able to price your products?

- Higher
 Lower
 Same as today

Comments, if any: _____

6. In the next 3 months, do you see that your suppliers' price you pay will be?

- Higher
 Lower
 Same as today

Comments, if any: _____

Additional Comments

Appendix III: About YarnsandFibers

Launched in 1998, YarnsandFibers has emerged as a leading provider of Market Intelligence and Market Development.

Members range from over a 150 countries and include all major companies in the segment. With this global footprint, YarnsandFibers is in an ideal position to understand business needs and help the transition beyond the expiry of the quota regime in 2005.

Since inception, YarnsandFibers.com has focused on delivering relevant Market Intelligence & assisted Market Development. YarnsandFibers has successfully combined the online & offline mechanism to deliver maximum value to its users.

In a world of information overload, YarnsandFibers has worked relentlessly to pursue its belief that effective Market Intelligence is the **right** information reaching the **right** person at the **right** time.

In pursuit of this, YarnsandFibers.com has three primary services

1. The PriceWatch Channel – Price trends covering 22 products of the Fiber Value Chain
2. The Industry News Channel – Daily news updates from around the world
3. The Industry Reports & Statistics Channel – Well researched reports on current topics and statistical data on production, consumption, demand–supply, etc

This encompasses all that a businessman would ever want to know about the goings on in the Textile Business.