

The Second
Business Confidence Survey report

A Textile Industry Perspective
(July - September 2005)

by

Yarns *and* Fibers.com

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Chapter 1: The Indian Textile Industry

The Indian textile sector with 19% share in World's spindleage is 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.

India has over 34 million spindles, 395,000 rotors and 1.37 million in the mill sector. The powerloom sector with 428,600 units has 1.91 powerlooms. In terms of output, the powerloom sector produces over 60% of all cloth produced in the country. The mill sector produces only 3% of cloth while the hosiery sector's output accounts for 20% of total cloth production in Indian. The handloom sector with 3.89 million looms produces 13% of all cloths.

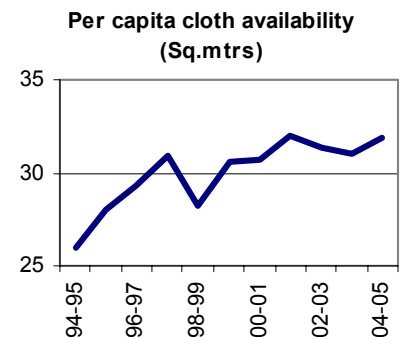
Of the total cloth production in India, about 45% is made of cotton and only 13% is weaved with blended yarn. The rest, 40% is made up of 100% non-cotton yarn. The per capita availability of cloth in India is around 32 sq meters per annum. The availability of cloth has seen an increase of about 2% per annum over the last 10 years.

With the removal of quotas and globalization in full swing, the Indian market is now exposed to global competition. Indian manufacturers and exporters now competing with the global players and are also facing 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.

During 2004-05, textiles production increased by over 9% from its levels in 2003-04 (measured in terms of Index of Industrial Production, Central Statistics Organization). This growth was led by 19% increase in the other textile product group, including apparels. Over 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%.

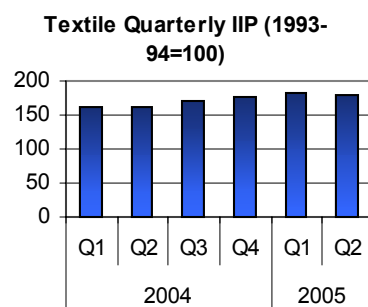
Introduction

No. of mills	1,783
Spindles	33.99 mln
Rotors	395,000
Looms (Mills)	137,000
Powerloom units	428,631
Powerlooms	1.91 mln
Handlooms	3.89 mln
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 19.1. Man-made fibers, wool and silk segment grew by modest 4.5% per annum during the 5-year period 2000-01 to 2004-05.



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.

Production of Fibers (Mln kgs)						
	Cotton		Manmade Fibres			Total
			Synthetic		Cellulosic	
			PSF	ASF	PPSF	
1999-00	2652	551	79	2	202	835
2000-01	2380	566	99	2	236	904
2001-02	2686	551	95	2	185	834
2002-03	2312	582	105	2	225	914
2003-04	3009	613	117	3	221	953
2004-05	3944	644	128	3	248	1023

Production of Yarn and Cloth														
	Spun Yarn production (Mln kgs)				Cloth production (Mln sq mtrs)									
	Cotton	Blended	100% Non Cotton	Grand Total	Cotton	Blended	100% Non Cotton	Total	Khadi, Wool & Silk	Grand Total				
1999-00	140.2	7.0	7.9	155.0	18989	5913	13725	38627	581	39208				
2000-01	169.3	10.0	11.6	190.9	19718	6351	13606	39675	558	40233				
2001-02	187.9	10.6	16.3	214.7	19769	6287	15334	41390	644	42034				
2002-03	180.2	17.1	27.2	224.5	19300	5876	16135	41311	662	41973				
2003-04	186.1	20.0	31.1	237.2	18040	6068	17613	41721	662	42383				
2004-05	228.0	22.0	32.2	282.2	20578	6025	18388	44991	662	45653				

Chapter 2: YarnsandFibers Textile Business Confidence Survey

YarnsandFibers conducted the second consecutive quarterly to assess the Indian textile business expectations for the quarter ended September 2005. The survey was held in the first fortnight of July. 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 Second Survey

Beginning this survey, YarnsandFibers will also bring to fore major constraints for growth of textile sector in India. We have listed five major hurdles which the textile firms feel would impede their growth performance. The constraints are, demand, labor, power, finance and infrastructure bottlenecks.

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 out 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 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 Result – Less optimistic

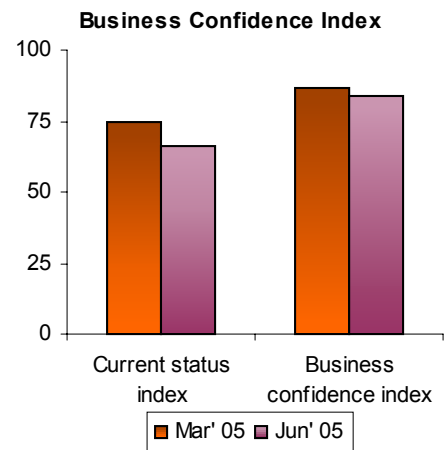
The YnFx Business Confidence Index for the quarter ending September 2005 stands at 83.9 on the scale of 0 to 100, where the highest is 100, at 50 the confidence is same as today and below 50 implies lower than the current level. This is marginally lower than the previous quarter index, which was at 86.5.

The business confidence index implies that textile companies are positive on their performance in the quarter ending September 2005. 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, or Worse.

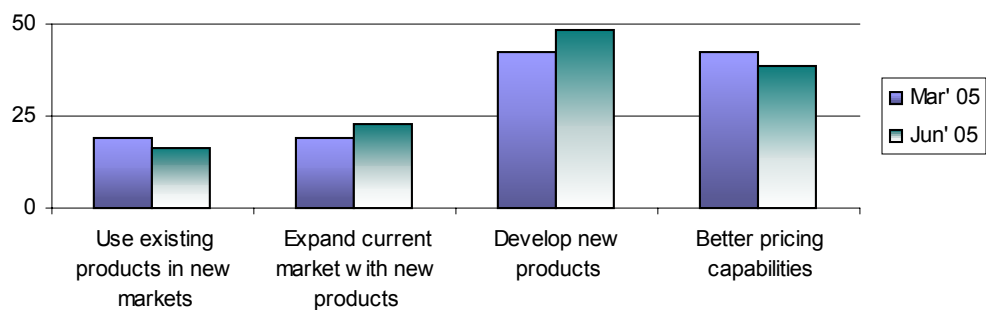
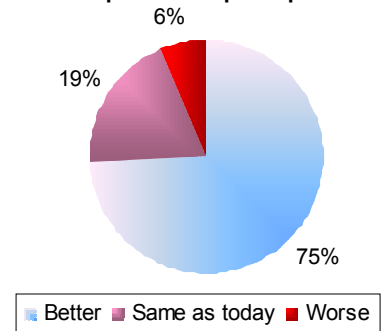
The marginal fall in the confidence index for September is explained by the responses to the questions compared to the previous survey for the quarter ending June. The September survey results showed that the lesser number of companies expect their performance to be better in the quarter ending September compared to June quarter. Further, more companies expect their performance to worsen in the September quarter compared to their performance in June quarter.

Of the respondents, 74 per cent (77 per cent in June survey) chose the first alternative indicating that their performance would be 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. 6 per cent of the respondents believed that their performance would be worse than current status. This proportion is higher than the June survey, which was at only 4 per cent.

The YnFx Business Confidence Index



Respondent's perception



The current business status index stands at 66.0 for the quarter ending June as against 75.0 for the quarter ending March 2005. This implies that 77 per cent of the companies that had expected their performance to be better in June quarter missed to realize their target.

In terms of strategies for growth, about 48 per cent of the respondents indicated that developing new products was the greatest sources of growth in next 3 months. Apart from this, 39 per cent of the companies believe that better pricing capabilities would boost their performance in July-September quarter.

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 Current Business Status Index for the June 2005 quarter stands at 66.0 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. This is much lower than the current status index, which was at 75.0 for the quarter ending March 2005.

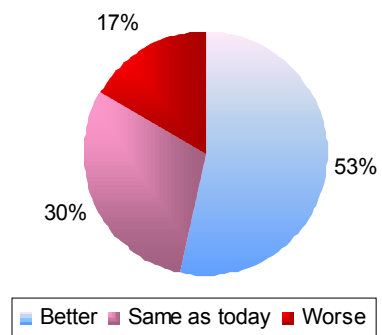
The question posed was "From your perspective how is your business today (April to June 2005) vis-à-vis 3 months ago (January to March 2005). The respondents were asked to choose from 3 alternatives: Better, Same as today, or Worse.

The current status index at 66.0 implies that textile companies had performed much below the performance seen in the quarter ended March 2005. The future business confidence index stands even higher at 84.

Of the respondents, 52 per cent have chosen the first alternative indicating their performance was better in the current quarter (April to April 2005). While 26 per cent respondents said that their performance was the same or has not changed. About 16 per cent of the respondents fared poorly compared to previous quarter's performance. The decline in performance during the April-June quarter is inexplicable since India's textile exports have been growing at a faster rate.

YnFx Current Business Status Index

Respondent's Performance



The business margin expectation index stands at 48 for the quarter June to September 2005. This is lower than the June quarter expectation where the index stood at 50. An index lower than 50 implies that the companies expect squeeze on their margins, through higher input cost and lower ability to pass on the rising cost to end-product prices. The index is based on responses to two questions;

YnFx Business Margin Expectation Index

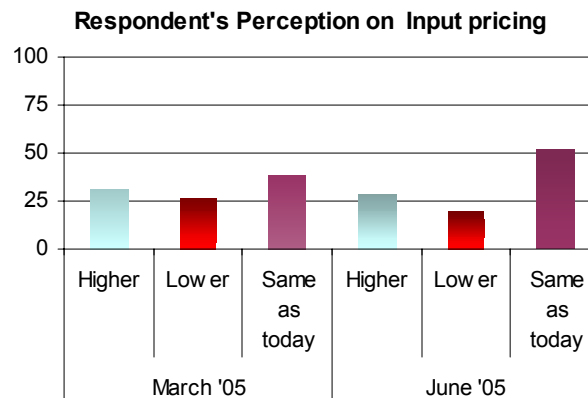
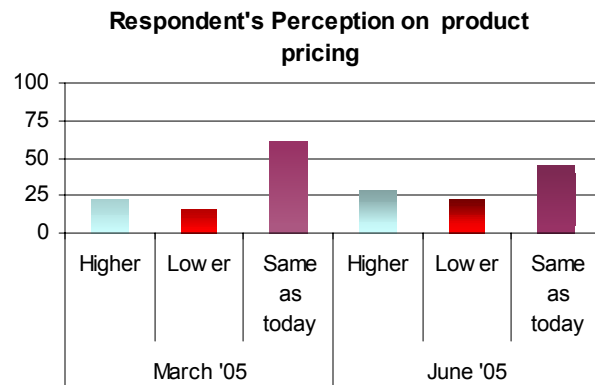
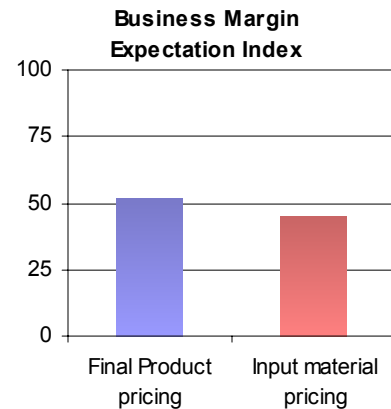
“In the next 3 months, do you foresee that you will be able to price your products”, and “In the next 3 months, do you see that your suppliers’ price you pay will be”.

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

Majority of respondents now believe that developing new products would give them better growth. While the earlier survey results showed that both – developing new products and better pricing capabilities, were a greatest source of growth. Thus, responses suggest that the companies expect greater competition with introduction of new products and brand building. Nevertheless, better pricing capabilities still hold grounds to as many as 39 per cent of the respondents.

For the quarter June to September 2005, about 45 per cent of the respondents felt that their product price would remain same as today in the next quarter while 29 per cent believe that they would be able to sell their products at higher price. 23 per cent respondents feel that their product prices would fall in the next quarter.

On suppliers’ pricing, 51 per cent respondents felt that input price will remain the same and 29 per cent expect that it may go up. Only 19 per cent felt that inputs price might fall.

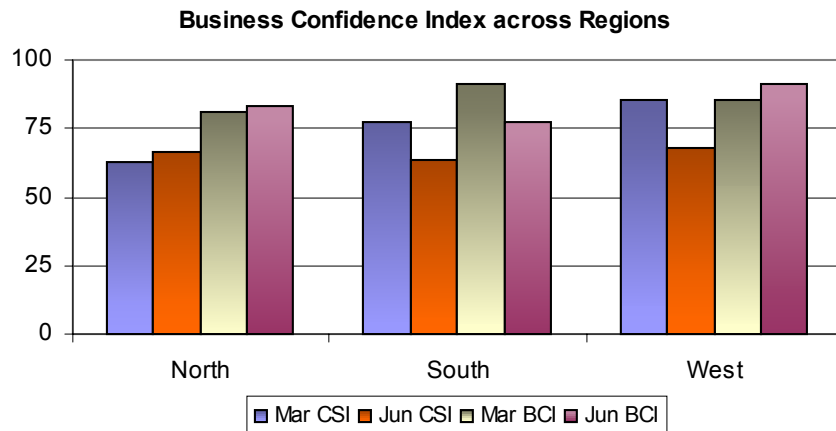


Business Confidence across Regions

Textile companies in North and West India are optimistic over their performance in the next quarter ending September 2005. However, the textile firms of South India are pessimistic to continue with the same performance in July-September quarter compared to their performance in April-June quarter.

The Business Confidence Index for the next quarter stands at 83.3 for North India and 90.9 for West India as against their current status index at 66.7 and 68.1 respectively. The Business Confidence Index for textile companies in the South stands at 77.3 and has declined from 90.9 in the preceding survey. Their current status index too has declined to 63.6 for April-June quarter from 77.3 in the preceding quarter.

In the next quarter (July to September), 63 per cent of the western firms believe that the source for business growth would come from developing new products. Southern companies too believe the same. A very few north Indian textile firms feel that new products would give them growth, but they believe more in better pricing capabilities would boost their performance in the next quarter. Many northern firms also feel that entering new markets with existing products would also help them expand their business.



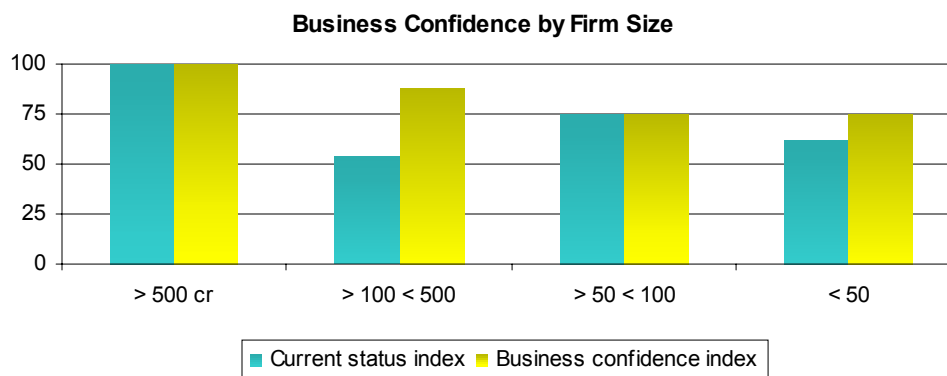
Large firms are more optimistic about their performance in the quarter ending September 2005. Textile companies with sales turnover of over Rs.5 billion per annum, expect quarter to be much better than the current level. The Business confidence index for companies with sales of over Rs.5 billion, stands at 100.0, the highest level. The index stands the same as in June survey. They current status index at 100 indicate that their performance was as expected.

Business Confidence across firm size

For companies with sales between Rs.1 billion to Rs.5.5 billion, the business confidence index stands at 88.5, and this is a substantial improvement over their current status index which stood at 53.9 for the quarter ending June 2005. The business confidence index for companies with sales between Rs.0.5 billion and Rs.1 billion stands at 90.0 for the next quarter (July to September).

While large companies believe that better pricing capabilities would give them growth in the next quarter, medium and smaller size firm believe that developing new products is the growth path for them. About a half of Rs.0.5 billion and Rs.1 billion size companies feel that better pricing capabilities would instill growth in the next quarter.

Most large companies have indicated that infrastructure bottleneck to be the major constraint to growth. They foresee demand to be good and power, labor and finances do not bother them. Among the smaller size companies, as many as 33 per cent of Rs.0.5 billion and Rs.1 billion size companies have indicated that demand and finance to be bottlenecks for their growth. Smaller companies with less than Rs.0.5 billion sales size feel that they would suffer due to poor power quality.



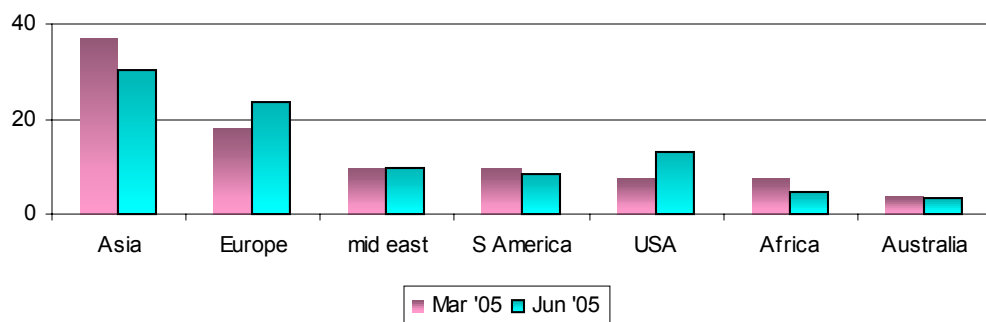
Where is the export market

A noticeable change is seen in this survey of YarnsandFibers with firms looking at other export markets for growth in the quarter ending September 2005. In the March 2005 survey, about 37 per cent of the respondents had identified Asia to be the major destination for export growth. In the June survey, this ratio has come down to 30%, while increasing number of firms are now targeting Europe and USA for export growth.

About 24 per cent and 13 per cent of the respondents are looking at Europe and USA respectively for export growth. Middle East and South-America (9 per cent each) are the other destinations for textile companies. Another 5 per cent say that Africa was export market in the next 3 months.

About 54 per cent of the textile firms targeting the Asian market for export growth believe that the greatest source of growth for their company in the next three months would come from better pricing capabilities. While those targeting European and American markets perceive that growth performance would be in developing new products as well as better pricing capabilities. This implies that the European and American consumers are sensitive to quality and price.

Major Markets for Export Growth

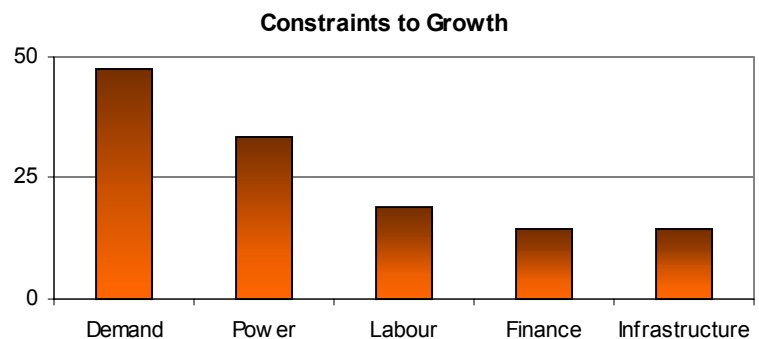


Constraints to Growth

From this survey onwards YarnsandFibers will bring together opinions of textile firms on the major constraints they face which are impeding their performance. The results indicate that as many as 48 per cent of the firms face major demand constraint. While 33 per cent said that power was a major constraint, 19 per cent indicated that labor was impeding growth. About 14 per cent feel that finance and infrastructure were hurdles to growth.

Demand was a major constraint to most textile firms across the country. The issue was more prominent to western and southern textile firms than the textile firms in north India. Western firms were also facing power shortages. About 50 per cent of the respondents from western India said that power was a major constraint to growth. A few firms (only western India) have also indicated that finance was one the problems to their growth performance.

An analysis by size of firms (sales value) shows that larger firms (Sales over Rs.5 billion) faced major infrastructure bottlenecks. These firms by their size have economies of scale but are not able to reach consumers. Transport and port infrastructure are the apparent impediments. Firms with sales size between Rs.1 billion to Rs.5 billion have pointed out that they were facing demand constraint. Lack of demand was also a major constraint to firms with sales size of Rs.0.5 billion to Rs.1 billion. These smaller firms have also pointed out that finance was a one of the constraints to growth.



Chapter 4: Conclusions

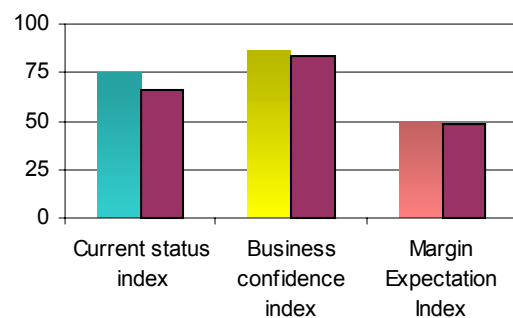
Textile firms are a bit pessimistic over their performance during the quarter ending September 2005 compared to their performance in June quarter. This is revealed by YarnsandFibers second survey on Indian textile business confidence held in late June and early July. The three business confidence indices – 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 pessimism and the constraints that textile firms face.

The YnFx Business Confidence Index for the quarter July to September 2005 stands at 83.9 while the current business status index is at 66.1 for the quarter ended March 2005. In the preceding survey for quarter ended June 2005 the business confidence index stood at 86.5 and the current business status index was 75.0 for the quarter January to March 2005.

Even the YnFx Business Margin Expectation Index, which measures the firms pricing capabilities for their end product as well as for the inputs, stands at 48.4 for July-September quarter down from 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 now believe that the greatest source for enhancing their performance will be developing new products although better pricing capabilities would continue to give them secular growth. There is a noticeable change in the export destination seen in this survey. More firms are looking at Europe and USA as major export destinations. Asia continues to be the basic market.

On the constraints front as many as 48 per cent of the firms have indicated that demand would hurt their performance. While 33 per cent said that power was a major constraint, 19 per cent indicated that labor was impeding growth. About 14 per cent feel that finance and infrastructure were hurdles to growth.



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: June 2005

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

- Better
 Worse
 About the same
Comments, if any: _____

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: _____

7. What are the constraints, in your opinion for your company's growth in the next 3 months?

- Demand
 Labor
 Power
 Finance
 Infrastructure
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.