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CONFEDERATION OF INDIAN TEXTILE INDUSTRY

4
April
2024

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ICRA Predicts Modest Recovery For Indian Apparel Exporters In FY25

Following the tepid demand environment in financial year 2024 (FY24), ICRA expects a muted 8-9 per cent recovery in revenues of its sample Indian apparel-exporting companies to ₹281.5 billion (approximately $3.37 billion) in FY25 from ₹260 billion (approximately $3.11 billion) for FY24, benefitting from the low base and with replenishment of stock in the US and the EU regions, according to ICRA's recent research note on the Indian apparel export industry.
The retail apparel brands in the US and the EU, which together account for close to 55 per cent of global apparel trade, are expected to liquidate the high inventory build-up and book their orders for the summer 2024 season in the first half (H1) of FY25. ICRA's outlook for the apparel industry remains stable.

Despite the ongoing Red Sea conflict, no immediate cost implication is being felt by apparel exporters operating on a free on board (FOB) basis, except for their shipments getting delayed by approximately 15 days from its original transit time. Any sustained continuance of this face-off would have a direct impact on apparel export volumes and their realisations due to higher costs for the customers, as per ICRA.

“After a nominal decline in revenues in FY24, ICRA expects the apparel-exporting companies to report a recovery in FY25 on a lower base, with replenishment of stock in the US and the EU regions. Despite a rationalisation in raw material costs in FY2024, the benefit is expected to be passed on to the end-users, considering a weak operating environment at present. The long-term growth prospects look encouraging, with the government of India’s various promotional steps, including the PLI schemes, the PM Mitra parks, the proposed FTAs with the UK and the EU, and the longer-term benefit of China Plus One shift in apparel sourcing,” said *Priyesh Ruparelia, vice president and co-group head, corporate sector ratings, ICRA*.

A difficult operating environment had pushed back large capex investments for most players. However, based on an expectation of demand revival in FY25 and the industry players’ strategies to take advantage of the China Plus One movement, ICRA expects a pick-up in capex spending in FY25.

Out of the approved 64 applicants for the PLI 1 scheme in April 2022, 56 completed the mandatory criteria for formation of a new company and approval letters have been issued. Twelve more applications are under evaluation at present, for selection of investors under the scheme. Investment of approximately ₹21.19 billion by 30 selected applicants has been made till September 2023.

In addition to the fresh capacity additions under the PLI, the PM Mega Integrated Textile Region and Apparel (MITRA) schemes will strengthen India's presence in the global apparel trade, by providing scale benefits and strengthening the country’s presence in the MMF value chain. ICRA anticipates the culmination of these schemes to enable the Indian apparel exporters to capture a greater share of the Chinese apparel export market.

The rating agency estimates its sample companies to report a mild 5-6 per cent YoY dip in revenues to ₹260 billion for FY24. Despite US apparel imports declining by approximately 22 per cent in calendar year 2-23 (CY23), their retail clothing store sales had remained resilient registering a 4 per cent YoY growth, with retailers unwinding their excess inventory position. Amidst no major debt addition, the coverage ratios of the sample set are expected to marginally moderate as earnings weaken.

ICRA’s sample set of apparel-exporting companies is likely to report an interest cover of approximately 5.6-5.8 times and total debt/OPBDITA of approximately 1.8-1.9 times in FY24 and FY25, respectively (compared to approximately 6.3 times and 1.5 time respectively, in FY23).

The operating margins of apparel exporters may moderate to 9.8-10 per cent in FY24 (11.3 per cent in FY23), on relatively weaker operating performance in the first nine

months (9M) of FY24 and contraction in volumes leading to decline in operational efficiencies. Indian cotton yarn prices had averaged approximately 23 per cent lower in 9M FY24 compared to FY23 and 1 per cent lower than the past five-year average. Despite moderation in cotton yarn prices, the same is getting passed on to the customers owing to a weak demand environment. Nevertheless, the stability of export incentives, together with the benefits of higher scale, should help the companies cushion the impact on profitability in FY25.

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India's 'Goldilocks' economy to prompt RBI to keep rates on hold

Economic Growth, Moderating Inflation May Prompt RBI To keep rates on hold

Strong economic growth and moderating inflation means India's central bank will have room to keep interest rates on hold at its review this week and likely until July, economists say.

The Reserve Bank of India (RBI) is widely expected to keep rates unchanged on Friday, for the seventh consecutive meeting.

All 56 economists in the March 15-22 Reuters poll expected the RBI to hold the repo rate at 6.50% while most expect no change at least until July.

The RBI has ample room to remain on hold in the near term, Barclays said in a note.

The central bank last changed rates in February 2023, when the policy rate was hiked to 6.5%.

"We think the RBI will have to consider the balance of risks between over tightening (given the 'not-too-hot-nor-too-cold' state of the economy) and maintaining monetary policy conditions for achieving reasonably good real GDP growth of at least 7.0%," Barclays economists wrote, referring to the proverbial "Goldilocks" ideal state of stable economic growth.

As India heads into a general election this month, the economy is growing faster than expected amid signs prices are trending lower though food inflation remains a risk.

Prime Minister Narendra Modi said at an event on Monday that the RBI must give top priority to growth but at the same time focus on trust and stability. BJP is expected to secure a comfortable win for a third straight term at the polls starting on April 19.

India's economy grew a stellar 8.4% in the fourth quarter of 2023, the fastest among major economies while retail prices in February rose at a faster-than-expected pace of 5.09% due to elevated food prices, staying above the RBI's 4% target.

In February, one of six monetary policy committee members voted for a cut in policy rates arguing that real rates in India are too high since inflation is seen easing to an average of 4.5% in 2024-25.

"India's growth is robust when compared to the rest of the world, but not when compared to our potential or to our aspirations," monetary policy committee's external member Jayanth Varma told Reuters.

But central bank governor Shaktikanta Das has repeatedly said that it is premature to ease policy before inflation returns to the 4% target.

Headline inflation in India has remained above the central bank's target, core inflation has fallen below 4%, which some say may allow the central bank to signal policy easing ahead.

The current monetary policy stance is 'withdrawal of accommodation', signalling that monetary policy will likely remain tight.

"We do not expect any change in the policy rate, but a probable explicit or implicit change in stance cannot be ruled out," said Parijat Agrawal, head of fixed income at Union Mutual Fund.

The RBI's monetary policy setting is independent but that has not prevented governments in the past from exerting pressure on the central bank for easier lending policies to support growth.

"At the margin, the RBI will prefer to stay on the sidelines to prevent any flare up of concerns over its independence," said Thamashi De Silva, assistant India economist at Capital Economics.

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World Bank Projects Indian Economy To Grow at 7.5 in 2024

Exuding confidence over the Indian economy due to its current pace of growth, the World Bank has said that the country's economy is expected to have grown 7.5 per cent in the 2023-24 fiscal year on the back of robust growth in the third quarter, revising its earlier forecast of 6.3 per cent. However, it also expects growth to pick up in subsequent years as a decade of robust public investment starts yielding dividends, according to the World Bank's latest South Asia Development Update released on Tuesday late night.

Despite projecting a higher growth for FY 24, the global agency has also projected that the economic growth in India for FY25 is significantly moderate, raising its GDP growth projection for India by 20 basis points to 6.6 per cent in FY25. It also asserted that the expected slowdown in growth between FY23/24 and FY24/25 mainly reflects a "deceleration in investment from its elevated pace in the previous year".

Compared with the World Bank's projection for FY25, the forecast is lower than that of the Reserve Bank of India (RBI), which has pegged the growth rate at 7 per cent for this fiscal (2024-25). For Q1, the RBI has also estimated 7.2 per cent GDP growth; Q2 GDP is estimated at 6.8 per cent, Q3 at 7 per cent and Q4 at 6.9 per cent. "The growth in services and industry is expected to remain robust, the latter aided by strong construction and real estate activity," the report noted.

As per its latest report, South Asia is expected to remain the fastest-growing region in the world for the next two years, with growth projected to be 6.1 per cent in 2025, mainly driven mainly by the growth in India coupled with recovery in Pakistan and Sri Lanka's GDP. "In neighbouring Bangladesh, output is expected to rise by 5.7 per cent in FY25 with high inflation and restrictions on trade and foreign exchange constraining economic activity," the report said.

The latest update of the bank further noted that inflationary pressures are expected to subside, creating more policy space for easing financial conditions. "Over the medium term, the fiscal deficit and government debt are projected to decline, supported by robust output growth and consolidation efforts by the central government," the Word bank noted in its update.

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Ensure India isn't taken for a ride in trade deals

The sixth century BC Chinese philosopher-soldier Sun Tzu had written in his Art of War, arguably the earliest known work on that subject: "Know the enemy and know yourself; in a hundred battles you will never be in peril". While there is no gun play in trade and commerce, it can and often does lead to a "trade war", as seen in 21st century sanctions battles, which can instantly turn a "trading partner" into a "trading foe". Also Read - Dilip Cherian | Haryana CM's chief principal secy takes flak for poll activity Advertisement Hence, international trade and commerce potentially could turn as good or as bad as war, where balance sheets matter most. Recurring adverse "balance sheets" can very easily turn toxic, leading to wars of economics, geography and politics. It's because business is fundamentally about profits and losses. A trader who is a monetary or financial loser is out of business. In international trade, therefore, no major business deal can take place between individual traders or industrialists without policy intervention by nation states, and the endurance of their mutual cordial politico-diplomatic relations.

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Merchandise exports may shrink despite expecting double-digit growth in Mar

Merchandise exports from India for the financial year 2023-24 (FY24) may show a contraction of around 1-1.5 per cent after two consecutive years of growth, even as March is likely to witness robust double-digit growth, according to initial trade data estimates. The final data is still being compiled and will be released by the commerce department on April 15.

"During FY23, India exported goods worth $451 billion and FY24 is expected to see a small dip on a cumulative basis. The demand for Indian goods, in terms of volumes, is expected to grow. The contraction can be attributed mainly to the falling commodity prices," an official told Business Standard.

On a cumulative basis, during the April-February 2023-24 period, merchandise exports stood at $395 billion, which is 3.5 per cent lower than during the same period a year earlier. During the 11 months – April to February – six months saw contraction and exports largely hovered around $33-$34 billion. The sustained uptick started only in December onwards.

India's merchandise exports grew at the fastest pace in 20 months at 11.9 per cent in February, despite the disruption due to the Red Sea crisis. Goods worth $41.4 billion were exported. The momentum is expected to continue in March, said the person cited above.

"...We have surpassed all predictions. March figures should also be very good. It shows resilience in the export sector. The 2024-25 financial year will also be very good," commerce secretary Sunil Barthwal told reporters in a briefing last month.

A 1-1.5 per cent contraction in merchandise exports will mean that outbound shipments will hover around $50 billion in March, surpassing the FY22 figure of nearly $45 billion. If overall exports – goods and services – are taken into account for FY23, the growth is expected to be positive. During the April-February period, services exports stood at $314.82 billion, as compared to $294.89 billion during the same period a year earlier.

Last week, commerce and industry minister Piyush Goyal said in FY24, India's exports are expected to be 'flat or a little bit on the positive side', despite the Israel-Hamas war and the Red Sea-related disruptions.

"Goods and services together will continue to be positive despite two wars and the Red Sea crisis. We will be doing $2 trillion of exports by 2030 and I have no doubt in my mind," Goyal said at the Business Standard Manthan event.

According to the United Nations Conference on Trade and Development (Unctad), international trade is expected to rebound in the calendar year 2024, reversing last year's downturn, amid lingering geopolitical uncertainties. However, it warned that the logistical challenges such as shipping disruptions in the Red Sea, Black Sea, and Panama Canal cast shadows over the optimistic outlook, and can raise costs and disrupt supply chains.

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Bangladesh Takes Steps For Pre-Arrival Processing For Faster Imports

In a recent gazette notification, Bangladesh's National Board of Revenue (NBR) said imports have to be declared well in advance of the previous deadline for notifying of their arrival to reduce false declarations and enable quick releases.

The decision will help importers receive clearance for products of the general category, excluding those requiring further clearance or high value-added tax payments, by paying customs duty before the goods enter the country.

Earlier, the import general manifest (IGM), a document containing detailed information about the cargo being carried on a vessel or an aircraft, had to be submitted 24 hours prior to its arrival into the country.

But according to the Pre-Arrival Processing Rules-2024 for Imported Goods issued on March 24, the IGM has to be submitted 24 hours prior to the vessel departing the last port for Bangladesh.

Any amendment can be made by the importer or shipping agent within 24 hours of filing the IGM, domestic media outlets reported.

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Bangladesh Needs Urgent Monetary Reforms To Boost Forex Reserves

To bolster Bangladesh's foreign exchange reserves and alleviate inflation, there's an urgent need for the implementation of monetary reforms and the adoption of a single exchange rate regime, according to latest Bangladesh Development Update by the World Bank.

The report advocates for increased exchange rate flexibility to achieve a balance between demand and supply in the foreign exchange market and emphasizes structural reforms to diversify the economy and enhance resilience over the medium and long term. Such reforms include steps to increase government revenue, which in turn would fund investments in infrastructure and human capital.

Bangladesh's economic landscape has been marred by persistent inflation, eroding consumer purchasing power and dampening investment through tight liquidity conditions, rising interest rates, import restrictions, and the escalation of input costs following hikes in administered energy prices, as per World Bank.

The private sector's credit growth has further decelerated in the fiscal 2024 (FY24), indicating a broader investment slowdown. The banking sector faces challenges with a high non-performing loan (NPL) ratio, exacerbated by lenient reporting standards and weak regulatory enforcement. However, a silver lining appears as the Balance of

Payments deficit showed signs of moderation in the first half of FY24, thanks to a current account surplus.

“Bangladesh’s strong macro-economic fundamentals have helped the country overcome many past challenges,” said *Abdoulaye Seck, World Bank country director for Bangladesh and Bhutan*. “Faster and bolder fiscal, financial sector, and monetary reforms can help Bangladesh to maintain macroeconomic stability and reaccelerate growth.”

A companion piece, the World Bank's South Asia Development Update—Jobs for Resilience, projects South Asia as the fastest-growing region globally for the next two years, with growth rates of 6 per cent in 2024 and 6.1 per cent in 2025. This optimistic growth forecast is propelled by strong performances in India and Bangladesh, along with recoveries in Pakistan and Sri Lanka.

Despite this positive outlook, the report warns that the strong growth figures mask underlying vulnerabilities. For many countries in the region, economic growth remains below pre-pandemic levels, heavily reliant on public expenditure. Structural challenges persist, posing threats to sustained growth and the region's capacity to generate employment and withstand climate impacts. Notably, private investment growth has decelerated across South Asian countries, with the region struggling to create enough jobs for its burgeoning working-age population.

The demographic trends in South Asia further accentuate the employment challenge. The region has seen its working-age population growth outpace that of other developing regions. Yet, the employment ratio in South Asia stood at 59 per cent in 2023, significantly lower than the 70 per cent observed in other emerging market and developing economy regions.

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