LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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News Highlights

NATIONAL

NEW PAYMENT LAW TO AID MSMES IMPACTS INDIA'S TEXTILE TRADE

The trade in India's textile value chain has been disrupted for the last couple of weeks as an amendment in Companies Act 2023 regarding payment clause for MSME sector has come into effect. The Finance Act 2023 was introduced in the Parliament by finance minister Nirmala Sitharaman during her budget presentation for 2023-24. The latest disruption may further dampen sentiments in the trade of yarn and other products of textile sector. However, trade experts hope that this churning in trade may give short lived pain, but it will help MSME suppliers in the long run.
"The amendment came into effect from current fiscal 2023-24. It means that income tax payers (business entities registered under Companies Act 2023) will have to face its repercussions in next assessing year 2024-25," Kunal Mishra, a Chartered Accountant at a Mumbai based consulting firm Virtual CFO, said in an article posted on LinkedIn.

According to the post of Mishra, the amendment in the Finance Bill of 2023 has extended the government's concerted efforts to enhance liquidity for MSME entities, Earlier, it had implemented various measures for the same. The amended section 43B(h) of the Income Tax Act is applicable to all types of purchases made from enterprises registered under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. However, it specifically applies to micro and small enterprises, excluding medium scale enterprises.

As per Section 43B(h), any sum payable by the assessee to a micro and small enterprise beyond the time limit specified in Section 15 of the MSMED Act shall be allowed only in computing the income of the previous year in which the sum has been actually paid. This is irrespective of the previous year in which the liability to pay the sum was incurred, as per the accounting method regularly employed.

The clause is applicable when an enterprise is buying goods or taking services from an enterprise registered under the MSMED Act, 2006. It is important to note that the registration of the buyer under the MSMED Act, 2006, is not mandatory. Micro enterprises, to be registered under the MSMED Act, 2006, must have an investment in plant and machinery not exceeding ₹1 crore and turnover not exceeding ₹5 crore. Small enterprises, on the other hand, should have an investment in plant and machinery not exceeding ₹10 crore and turnover not exceeding ₹50 crore.

According to the latest amendment, buyers (enterprises) are obligated to pay micro and small suppliers within 45 days, depending on the presence of a written agreement. In the absence of a written agreement, payment should be made within 15 days. If payments to micro and small enterprises are not made within the specified time frame, the amount becomes taxable income for the assessee in the previous year of non-payment. The assessee can claim a deduction in the previous year when the payment is made. Mishra advised that businesses should categorise suppliers in their books and adhere to payment deadlines.

As the last date of current fiscal 2023-24 is approaching fast, traders in textile and other sectors are worrying for implications of the clause. Ankur Bansal, a trader from Panipat, said that confusion regarding the payment clause is adding to the worries of the traders. They are avoiding buying any goods/service in the current fiscal as they will not be able to pay within the same fiscal year. As per clause, if a buyer places order and gets delivery of goods/service but it fails to pay within 45 days/15 days before March 31, 2024, the due payment will be added to his income for next assessing year 2024-25.

In order to remain on the right side of law, buyers are taking undertaking from their suppliers and vendors that they do not fall under the category of Micro, Small and Medium Enterprises as per the MSME Act 2006.

However, few traders feel that this will be a short-term pain, and trade will become normal in the next fiscal year. Traders/buyers will then be able to get delivery from their suppliers and would be able to make payment during the entire fiscal year till next March 2025.

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Indian Economy To Grow At Average 6.7% Per Annum Until FY31: CRISIL

Following a robust 7.3-per cent growth in this fiscal in India, rating and research agency CRISIL has projected a moderation to 6.4 per cent in the next, largely due to cyclical factors.

The organisation projected the Indian economy to grow at an average rate of 6.7 per cent per annum until the end of this decade, i.e., between fiscals 2023-24 and 2030-31, a notch above the pre-pandemic decadal average of 6.6 per cent.

The key contributor to this trend will be capital. This is a result of the investment-driven strategy of the government to deal with the scarring from the pandemic, when the private sector was investment shy.

The government increased capital expenditure significantly to support the build-up of infrastructure and offered interest-free loans to states to bolster their own investment efforts, CRISIL, a subsidiary of S&P Global Ratings, noted.

The 5.7-per cent inflation print in India in December last year was driven solely by volatile vegetable prices and stubborn food grain inflation. However, it will keep the central bank cautious on the rate front as it eyes the 4-per cent target, it noted in a release.

The continued softening of core inflation and the deflation in fuel prices bring only two cheers. Given food has a substantial weight in the consumer price index (CPI) basket, the persistence of high inflation in this category keeps the risk of its transmission to non-food components alive, it said.

Global growth seems to be moderating as gross domestic product (GDP) contracted in some key advanced economies in the third quarter of last year.

While GDP contracted in Japan (minus 2.9 per cent annualised), the euro zone (minus 0.1 per cent) and the United Kingdom (minus 0.1 per cent), the US economy remained resilient, growing at an annualised 4.9 per cent compared with 2.2 per cent in the previous quarter.

Central banks in many advanced economies stayed pat with their interest rates during their latest policy meetings. Key central banks have raised rates by 400-525 basis points in the current interest rate cycle.

Although inflation remains above their respective targets, it has moderated significantly over the previous year and growth seems to be slowing, CRISIL added.

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PM TO INAUGURATE FOUR-DAY TEXTILE EXHIBITION BHARAT TEX LATER THIS MONTH

Read more at: [PM to inaugurate four-day textile exhibition Bharat Tex later this month Apparel Views -]

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Impact of New Rule 43B(H) on MSME Textile & Apparel Traders & Manufacturers

In a recent development concerning India's textile and apparel industry, the South India Garment Association (SIGA) has penned a letter to Prime Minister Narendra Modi, expressing concerns over the impact of Rule 43B(H) on micro, small, and medium enterprises (MSMEs).

India's textile and garment industry is a key contributor to employment, providing livelihoods to over fifteen crore individuals directly and indirectly. However, the industry is facing unprecedented challenges, compounded by factors such as the rise of online retail giants and the entry of large corporations into garment retailing.

SIGA highlights the adverse effects of Rule 43B(H) on the industry, including a decline in bookings for the upcoming summer season and increased order cancellations by retailers. The association underscores the importance of flexibility in payment processes, especially considering the intricate dynamics of the fashion-based industry.

In conclusion, SIGA urges the government to reconsider and repeal Rule 43B(H) in the textile and apparel sector. The implications of this regulation could have far-reaching consequences for MSME entrepreneurs, while larger corporations stand to benefit. It is crucial to initiate dialogue and collaborative efforts to address these challenges and ensure the sustainable growth of India's textile and apparel industry.

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Budget '24 — How it paints a picture of a resilient India

The recently unveiled Interim Union Budget for the fiscal year 2024–25 stands as a testament to the Government of India's unwavering commitment to steering India towards economic prosperity and inclusive development. Beyond the numbers and allocations, it is a comprehensive roadmap that paints a picture of a resilient and vibrant India, ready to embrace opportunities and overcome challenges.

It is a comprehensive and forward-looking document, underscoring the government's commitment to steering India through a trajectory of economic prosperity and inclusive development. One of the standout features of the budget is the substantial 11.1% increase in the capital expenditure outlay, reaching an impressive ₹11,11,111 crore, constituting 3.4% of the GDP. This announcement comes on the heels of a remarkable tripling of the capital expenditure outlay over the past four years, highlighting a strategic and calculated effort to spur economic growth and foster job creation.

GDP

The economic indicators embedded in the budget are promising. With India's real GDP projected to grow at 7.3% in FY 2023–24, aligning with the RBI's revised growth projections, the country showcases resilience amidst global economic challenges. The International Monetary Fund's positive revision of growth projections for India further underscores the increasing global confidence in India's economic prowess.

India's anticipated ascent to become the third-largest economy by 2027, coupled with its estimated contribution to global growth rising by 200 basis points in five years, positions the country as a key player on the global economic stage. Projections from various international agencies, including the World Bank, the IMF, OECD, and ADB, further solidify India's growth potential between 6.1% and 6.7% in 2024–25.

GST Collection

Buoyed by robust economic activity, the budget notes a significant milestone—the seventh occasion where gross GST revenues crossed the benchmark of Rs 1.6 lakh crore, standing at ₹ 1.65 lakh crore in December 2023. This economic buoyancy is reflected positively on revenue collections and points towards strong growth momentum and formalisation in the economy.

The budget's estimates for the fiscal year 2024–25 indicate a well-balanced approach, with total receipts other than borrowings and total expenditure estimated at ₹30.80 and ₹47.66 lakh crore, respectively. Tax receipts are anticipated to reach ₹26.02 lakh crore, showcasing a pragmatic fiscal framework.

A notable announcement is the continuation of the fifty-year interest-free loan for capital expenditure to states, with a total outlay of ₹1.3 lakh crore. This move aligns with the government's vision of 'Viksit Bharat' and supports milestone-linked reforms by state governments.

Fiscal Deficit

While maintaining a fiscal consolidation path, the budget outlines a commitment to reduce the fiscal deficit below 4.5% by 2025–26, with the estimated fiscal deficit for 2024–25 at 5.1% of GDP. The gross and net market borrowings are estimated at ₹14.13 and ₹11.75 lakh crore, respectively, both lower than the previous fiscal year.

The government's approach to development is laudable, transcending earlier models of 'provisioning up-to-village level' to a more comprehensive, all-encompassing paradigm. The focus on four major segments—'Garib' (poor), 'Mahilayen' (women), 'Yuva' (youth), and 'Annadata' (farmer)—indicates a commitment to addressing the diverse needs, aspirations, and welfare of the population.

The Interim Budget recognises the pivotal role of women in nation-building, with initiatives like Mudra Yojana loans for women entrepreneurs, increased female enrollment in higher education, and significant representation in STEM courses. Momentum for 'Nari Shakti' is evident, reflecting a commitment to gender equality and women's empowerment.

Social Development

The budget also emphasises social justice, highlighting the government's efforts to uplift the marginalised through schemes like PM-SVANidhi, PM-KISAN SAMMAN Yojana, and PM-JANMAN Yojana. It is heartening to see the focus on multi-dimensional poverty reduction and financial inclusion, with DBT of Rs 34 lakh crore using PM-Jan Dhan accounts leading to substantial savings for the government.

The roadmap for 'Viksit Bharat' includes substantial provisions for agriculture and food processing, infrastructure development, railways, aviation, green energy initiatives, and tourism sector promotion. The commitment to attracting foreign investments, exemplified by the FDI inflow reaching USD 596 billion during 2014–23, underscores India's attractiveness as an investment destination.

The Interim Union Budget for 2024–25 is not just a financial plan; it is a roadmap for a resilient, inclusive, and vibrant India. Every challenge is viewed as an opportunity, and the government's visionary approach sets the tone for a 'Kartavya Kaal'—a period of responsibility and commitment towards building a stronger, more prosperous India.

As the country stands at the threshold of immense possibilities and opportunities, this budget heralds a new era of development with fresh inspirations, heightened consciousness, and new resolutions. The government's pledge to present a detailed roadmap for the pursuit of 'Viksit Bharat' in the upcoming full budget in July holds the promise of even greater achievements and milestones on the horizon.

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Inter-bank call rate declines below repo rate, sparks speculation on monetary policy shift.

On Monday, India witnessed its inter-bank call rate—the rate at which banks borrow from each other for one day—dipping below the long-standing repo rate of 6.5%. The development marks a departure from the trend observed over the past four to five months, where the call rate had been oscillating between 6.75% and 6.8%.

The Reserve Bank of India (RBI) had maintained a policy of tight inter-bank call rate in recent months, a strategy influenced by the government's cautious spending approach as well as the spike in inflation, which reached 7.8% in July and August, primarily driven by the surge in tomato prices.

However, the economic landscape started shifting in November and December, when inflation fell below the RBI's forecast. This, coupled with increased government spending on activities such as month-end salary payments, contributed to a noticeable drop in the inter-bank call rate, culminating in the breach of the 6.5% threshold on Monday.

The decline in the inter-bank call rate serves as an indicator that the RBI is now more comfortable with the prevailing economic conditions and that inflation is no longer perceived as a severe concern by the RBI.

Market observers are now speculating that this decline in the call rate could pave the way for a shift in the RBI's monetary policy stance. There is growing anticipation that the central bank might consider adopting a more dovish approach in the upcoming monetary policy decisions.

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GLOBAL

Cotton Dropped As World Consumption In 2023/24 Is Forecast Lower Than Last Month

Cotton candy prices settled down by -0.17%, closing at 57740, influenced by changes in global consumption and production forecasts for the 2023/24 season. World consumption is expected to decrease by 1.3 million bales due to reductions in India, Indonesia, Pakistan, Uzbekistan, and Turkey. This, coupled with higher beginning stocks and production, led to a 2.0 million bale increase in world-ending stocks for the same period. Lower consumption in Uzbekistan contributed to a 400,000-bale increase in beginning stocks for the 2023/24 season. In India, the Cotton Association of India (CAI) maintained its estimate for domestic consumption at 311 lakh bales for the 2023-24 season. The pressing estimate was retained at 294.10 lakh bales.

CAI's observations were based on inputs from members and trade sources.
Brazil's cotton production reached a historic high in the 2022-23 season, driven by expanded cultivation and productivity. Despite increased global supply, sluggish demand due to unfavourable economic conditions led to bloated inventories and reduced cotton prices worldwide, according to the Center for Advanced Studies on Applied Economics (CEPEA). Globally, the International Cotton Advisory Committee (ICAC) projected that cotton production would likely exceed consumption for the second consecutive year. Global cotton lint production is expected to grow by 3.25% to 25.4 million metric tons in the 2023-2024 season, while consumption is forecasted to marginally decline to 23.4 million metric tons.

Technically, the cotton candy market is undergoing fresh selling, with a 3.95% increase in open interest, settling at 316, while prices declined by -100 rupees. Cotton candy is finding support at 57460, and a breach below may lead to a test of 57170 levels. Resistance is expected at 58020, with a move above potentially pushing prices to 58290

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Dhaka Urged To Review Decision To Cut Cash Incentives On RMG Exports

Garment and textile trade bodies recently requested the Bangladesh government to continue policy support to maintain the competitiveness of the sector by reconsidering the decision to cut cash incentives on the shipment of garments and other export-oriented products.
A delegation led by Bangladesh Garment Manufacturers and Exporters Association (BGMEA) president Faruque Hassan met finance minister Abul Hassan Mahmood Ali in Dhaka to convey the request.

The delegation comprised senior representatives from the Bangladesh Textile Mills Association, the Bangladesh Knitwear Manufacturers and Exporters Association and the Federation of Bangladesh Chambers of Commerce and Industries.

The meeting, ,attended by senior secretary in the commerce ministry Tapan Kanti Ghosh and finance division secretary Mohammad Khairuzzaman Mozumder, discussed the key issues being faced by the country's RMG industry, according to domestic media reports.

BGMEA president Faruque Hassan said severe inflation in the United States and the European Union has led to a decline in apparel exports to major markets of Bangladesh.

A decrease in garment exports affects the country's foreign reserves as the RMG sector accounts for 84 per cent of export earnings, he said.

A new minimum wage for garment workers has been implemented by businesses amid rising prices of energy and raw materials, which is adding to the pressure, he added.

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Bangladesh Likely To Review Export Incentive Reduction Decision

The finance minister of Bangladesh, Abul Hassan Mahmood Ali, has underlined his government's willingness to reconsider its decision to reduce the export incentives.
He revealed this during a meeting with the garment manufacturers recently, who expressed their concerns about the potential negative impact of the incentive cuts on the apparel sector.

Previously, the government had been offering cash subsidies ranging from 1 to 20 per cent to exporters, particularly in the garment sector, to enhance their global competitiveness.

However, as of the end of January this year, authorities implemented a reduction in incentives, adjusting the rates to range from 0.5 per cent to 15 per cent.

The revised rates are applicable to shipments made between January 1 and June 30 of the current year.

Notably, incentives for the top five garment items, which contribute to 56 per cent of the country's annual apparel shipments, were also withdrawn.

It may be mentioned here that prior to the January 31 notification, apparel exporters enjoyed 4 per cent incentive for using local fabrics, coupled with added 2 per cent for shipments within the eurozone.

They also received 4 per cent incentive for shipments to emerging markets, excluding the EU, US, Canada, and the UK even as the average incentive across all markets stood at 1 per cent.

Meanwhile, apparel exporters have voiced concerns, alleging an approximate 80 per cent reduction in export subsidies because adding this has created significant challenges towards maintaining competitiveness in the global market.

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Bangladesh's Exports Reach Record $5.7 Billion In January

Bangladesh witnessed a robust resurgence in exports, with manufacturers shipping a remarkable $5.72 billion worth of goods this January, marking the highest monthly export figure to date.
The earlier record, set in December of the previous year, stood at $5.30 billion.

This is as per the Export Promotion Bureau (EPB) of Bangladesh.

An increase in apparel shipments — apparels make up 85 per cent of the nation’s total exports — is seen responsible for the substantial increase in export receipts, which went up by 11.45 per cent year-on-year.

Thanks to interventions by the European and US governments, there has been a reduction in the inflationary pressures in Europe and the US, which helped push Bangladesh's apparel exports up, claimed industry insiders.

Meanwhile, speaking to media, Bangladesh Garment Manufacturers and Exporters Association (BGMEA) president Faruque Hassan said the garment makers have ramped up production in January following the restoration of normalcy, particularly after the announcement of a new wage structure for apparel workers, which also contributed towards improving the country's overall export performance.

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