Weak demand hits finances of readymade garment exporters

Union Minister for Micro, Small and Medium Enterprises (MSMEs) Mr. Nitin Gadkari has suggested the Apparel Export Promotion Council (AEPC) to take steps to enhance exports two fold in the coming years. Specifically, the minister called for technology upgradation and research to improve quality and remain cost competitive in the global market.

While speaking at an industry event recently, Mr. Gadkari also highlighted the need for setting up a centre for design and lab testing facilities to adhere to global standards. In yet another suggestion, the minister recommended apparel or textile industries to form clusters in rural and tribal areas for using bamboo and other materials in textile production.

As suggested by the minister, the apparel industry needs to enhance investment in technology to stay competitive in the global market. It is also the responsibility of the government and the banking sector to enhance flow of credit to MSMEs in this sector for necessary technology upgradation.

Technology upgradation is all the more important in this uncertain world where customers are reducing spending on non essential items and companies will have to offer best quality at the least possible price to retain customers or acquire new customers.

India's textile exports is the major source of foreign exchange reserves as the country has a trade surplus of USD 26.8 billion in the sector, with exports of USD 35 billion and imports of USD 8 billion. However, exports have marginally contracted from USD 27 billion in 2015-16. Readymade garment is the major category contributing 43% to overall textile product exports.

In a recent analysis, leading rating agency CRISIL pointed out to the impact of COVID 19 on the revenue of apparel manufacturers and exporters. According to its report on July 30, 2020, the revenue of readymade garment manufacturers may decline 25-30% in 2020-21 because of the prolonged lockdown and lower discretionary spending. "For exporters, the fall will be more because of tepid discretionary spending in the US and European Union (accounting for ~60% of India's RMG exports)," the report mentioned.

The pandemic has also increased stress on working capital of these entities because of higher inventory and stretched receivables. The rating agency expects cash flows to improve in the second half of 2020-21 on the back of growth in demand from the third quarter as the festive season begins in India. Also, pick-up in export demand from the beginning of the fall or winter season will boost export revenue.

The report was prepared based on the financial condition of 180 readymade garment manufacturers. Meanwhile, the rating agencies pointed to two factors that may affect the

profitability of exporters. These two factors to watch out for are depreciation of India rupee against the dollar and the euro and increase in incentive structure for exporters.

Summary of the report can be accessed from:

https://www.crisil.com/en/home/newsroom/press-releases/2020/07/slack-demand-to-crimp-garment-maker-revenues-by-25-30percent.html

Notifications

Press Information Bureau, Government of India

PM to launch platform for transparent taxation

https://pib.gov.in/PressReleasePage.aspx?PRID=1645243

Apparel Export Promotion Council should aim for two-fold growth in exports

https://pib.gov.in/PressReleasePage.aspx?PRID=1645044

DGFT

Amendment in import policy conditions for chemicals

https://content.dgft.gov.in/Website/dgftprod/eebdf38b-1844-4bc8-85a8-a0f765cd7ec8/Notification%20No%2026%20dated%2011%208%202020%20English.pdf

Supply of essential commodities to Maldives

https://content.dgft.gov.in/Website/dgftprod/8902b61a-d327-4e18-bccf-b570b67f8416/Noti%2027%20Eng.pdf

CBIC

Extension of Anti-Dumping Duty on flax fabrics imported from China and Hong Kong

https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-add2020/csadd23n-2020.pdf