

# Northern India Textile Mills' Association

PHD House, Sector 31 A, Chandigarh-160 031

Contact Nos.: +91 172 2637 573, +91 81466 77291, +91 81464 00264



**Shri Piyush Goyal**  
**The Hon'ble Union Minister of Commerce & Industry**  
**Udyog Bhawan**  
**New Delhi – 110 011**

**24.07.2019**

**Subject: Appeal to save Cotton Spinning Sector – SOS from the bleeding Spinning Fraternity.**

**Respected Sir,**

Greetings from NITMA.

The Northern India Textile Mills' Association, popularly known as NITMA is an apex association of North India serving the interest of textile units. All the large textile mills in the Northern part of India are associated with NITMA and the combined turnover of its members is approx. 50,000 crores (USD 8 Billion). It was formed in 1958 and represents industry for all policy matters and disseminates information apart from conducting conferences, exhibitions, seminars & workshops.

As you are aware, the Indian Spinning Industry is world class, modernized and produces finest quality yarns. It is also the leading producers of cotton yarn in the world. Indian Cotton Spinning Industry which was once considered as the sunshine sector of the Indian T&C Industry has been pushed to a non-performing sector in the last 4-5 years due to serious external and policy issues. The sector once achieved the highest export growth rate in 2013-14 is now struggling to find its foothold. The recent quick estimates released by DGCI&S shows that the entire cotton textile value chain has registered a negative growth rate of 19.73% in the month of June 2019 and during the period April to June 2019 it declined by 10.72% (see Table 1).

**Table-1: Analysis of Exports of Cotton Value Chain (US\$ Mn.)**

Particulars	June-18	April-19	May-19	June-19	% Change (June'18 to June'19)	Apr'18-June'18	Apr'19-June'19	% Change
Cotton Yarn/Fabs./ Made-ups, Handloom Products, etc.	986.22	844.22	884.95	791.68	-19.73%	2,823.58	2,520.85	-10.72%

Source: DGCI&S

**I. The major indicators highlighting the plight of the Cotton Spinning sector are given below for your kind perusal and consideration:**

- Cotton Yarn exports registered a staggering growth rate of 182% when exports rose to US\$ 4550 Mn in 2013-14 from US\$ 1613 Mn in 2009-10 with the help of export incentives. While it has slipped to US\$ 3895 Mn during 2018-19 from US\$ 4550 during 2013-14 showing a negative growth rate of 14% after withdrawal of export incentives in 2013-14;

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- Though, as per Reserve Bank of India's Financial Stability Report, the Stressed Advance Ratio of the textile sub-sector has marginally improved to 16.10% in March 2019 from 18.70% in September 2018, it will not provide the desired support to the cotton spinning sector.
- China has considerably reduced its import dependency on India and alternatively chosen Vietnam as a source of destination;
- Withdrawal of export incentives has led cotton yarn getting costlier in the international market resulting in drop in export performance and imposition of customs duty of 3.5% by China;
- State Governments are providing incentives for setting up of new spinning units in their states to attract investment even though there is already excess capacity lying idle (around 6 million spindles) in the country; (see table 2).
- Non refund of embedded taxes in the case of cotton yarn of around 5% is badly eroding the cost competitiveness of our products in the international markets;
- There is a major issue of cash crunch in the mills due to pending issues of TUF subsidies and excess capacity lying idle;
- Low domestic & global demand forcing laying-off of workers in large numbers and turning units in NPAs;
- Due to the above adverse reasons, the spinning sector all over India recently were forced to cut down their production by 15% to 50% as a damage control exercise since already 30% excess stock is lying unutilised in their go-downs.

## II. Current Status of Indian Cotton Spinning Industry

### • Production and Consumption Statistics of Cotton Yarn

The production of cotton yarn increased at a CAGR of 3.47% from 3079 million kg in 2009-10 to 4184 million kg in 2018-19. However, domestic consumption of cotton yarn, in the same period, has increased marginally at a CAGR of less than one percent only, thus increasing exportable surplus by 27% in 2018-19 as shown in Graph 1.

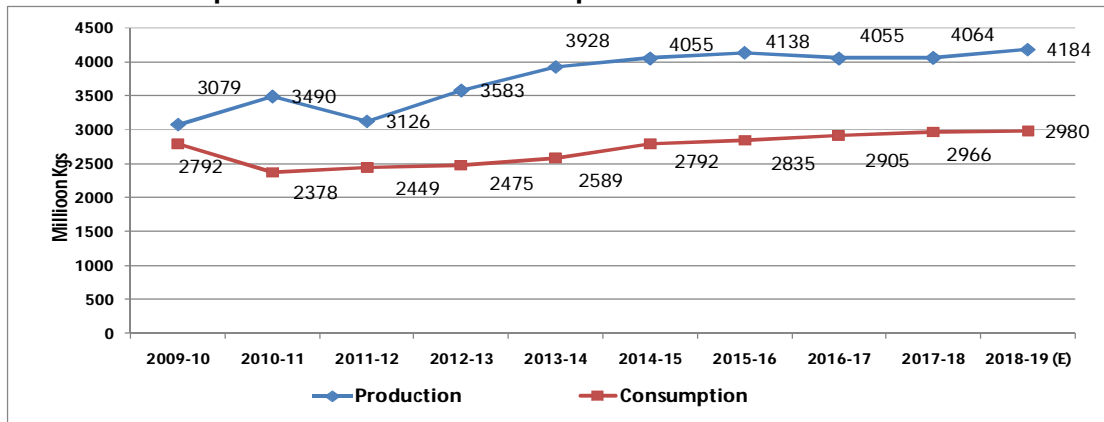
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**Graph-1: Production and Consumption Statistics of Cotton Yarn**

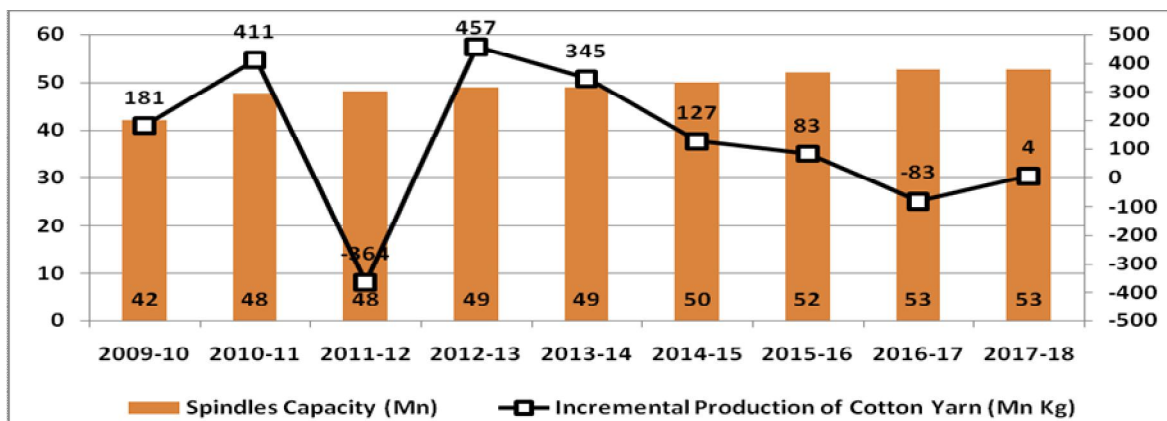


Source: Ministry of Textiles, India and IndiaStat.com

- Spindle Capacity and Incremental Production of Cotton Yarn in India**

It can be seen from Graph 2 that commensurate with the spindle capacity the production has not picked up after 2012-13, indicating excess capacity lying unutilised and incurring huge losses.

**Graph-2: Spindle Capacity and Incremental Production of Cotton Yarn in India**



Source: Ministry of Textile, India and Open Govt. Data Platform of India

Note: Spindles capacity includes for both Cotton/Man-Made Fibre Textiles Mills

From Table-2, 5.93 million spindles (2018-19) are lying idle. Moreover, domestic demand and export markets are also not at all supportive to consume the excess capacity lying unutilised at this juncture.

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**Table-2 :Capacity Under Utilization And Stagnated Yarn Production**

Year	Installed Spindles in Mn			Employment	Yarn Production - Mn Kgs				Average production per spindle/year	Spindles required with 2015-16 as base	Capacity under Utilized	Job losses
	Non-SSI	SSI	Total	In Lakhs	Cotton	Blended	Non-Cotton	Total			Mn Spds *	in Lakhs
2013-14	44.17	5.00	49.17	128.6	3929	897	485	5311	108.01	47.01	2.16	5.41
2014-15	44.47	4.97	49.44	125.8	4055	920	512	5487	110.98	48.56	0.88	2.19
2015-16	45.08	5.06	50.14	125.4	4138	972	555	5665	112.98	50.14	0	0
2016-17	46	5.18	51.18	130.7	4055	1033	572	5660	110.59	50.1	1.08	2.71
2017-18	47.12	5.3	52.42	136.6	4064	1065	552	5681	108.37	50.28	2.14	5.35
2018-19	47.14	5.33	52.47	147.9	3599	1078	581	5258	100.21	46.54	5.93	14.83

Source: Office of the Textiles Commissioner

\*Estimated by taking 2015-16 as the base period for assessing the production loss, employment loss and idle capacity

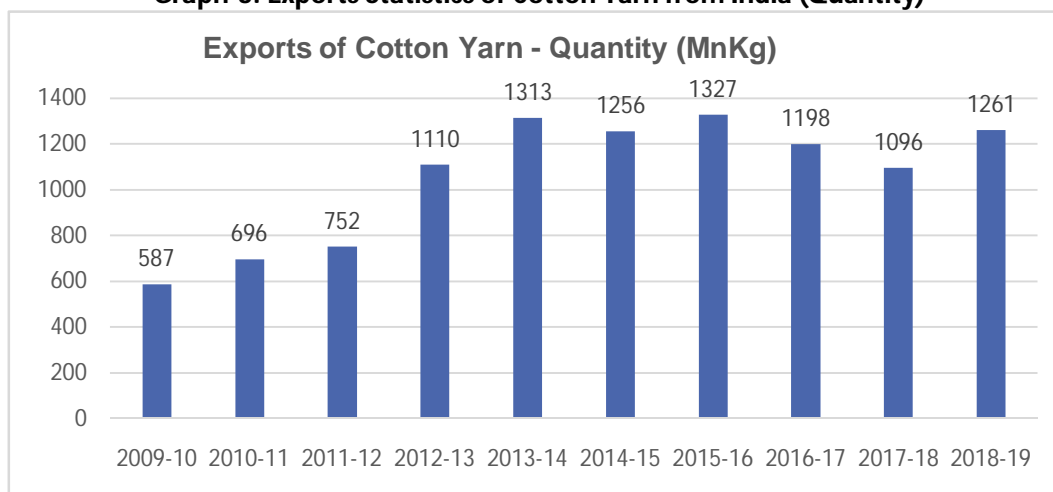
### Note

LMW and other manufacturers have supplied around 6 Mn spindles during the last 5 years, which is not reflecting in the data reported by O/TxC, if this is considered, the job losses and capacity under-utilization are much higher.

### Exports Statistics of Indian Cotton Yarn

In terms of quantity, India's Cotton Yarn exports increased by 123 % from 2009-10 to 2013-14 due to export incentives such as 2% incremental export incentive, 2% interest subvention and 3% focus market incentive etc. However, the same declined by 4 % from 2013-14 to 2018-19 (See Graph3).

**Graph-3: Exports Statistics of Cotton Yarn from India (Quantity)**



Source: ITC TradeMap and IndiaStat.com

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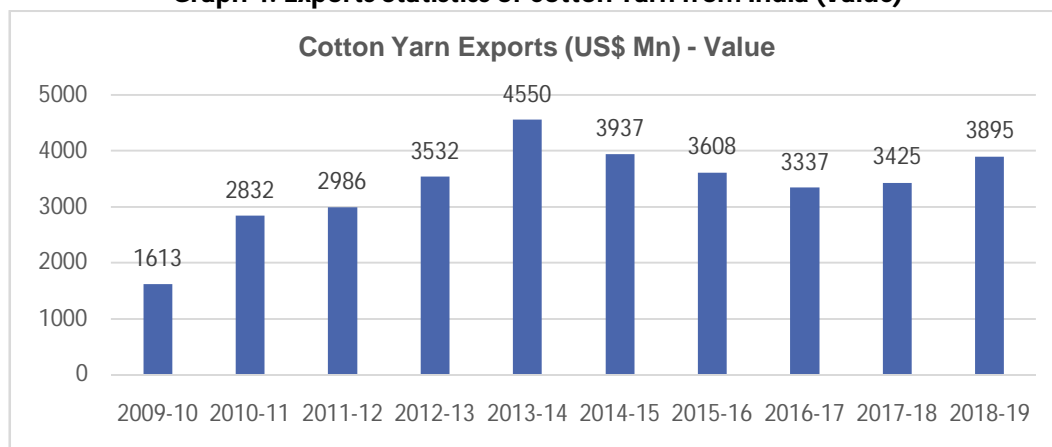
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Similarly, in terms of value, Cotton Yarn exports from India increased by 182% from 2009-10 to 2013-14. However, it declined significantly by 14% from 2013-14 to 2018-19, as shown in Graph-4.

**Graph 4: Exports Statistics of Cotton Yarn from India (Value)**



Source: ITC TradeMap and IndiaStat.com

- **India's Cotton Yarn Trade with China**

India's Cotton Yarn exports to China have decreased by 37% from 2013 to 2018, while Vietnam's exports of cotton yarn to China have increased by about 139% during the same period. Table-3 shows cotton yarn imports by China from India and Vietnam.

**Table-3: China's Imports of Cotton Yarn (In US\$ Mn)**

Supplier	2013	2014	2015	2016	2017	2018	% Change
India	2,033	1,640	1,868	1,047	1,071	1,273	-37%
Vietnam	900	1,263	1,422	1,668	2,029	2,146	139%

Source: ITC Trade map

It is pertinent to mention here that our competing countries such as Vietnam, Indonesia, Pakistan and Cambodia enjoy duty free access in China in different segments of cotton textiles, while Indian products bear 3.5%, 10% and 14% duty on yarn, fabric and made-ups, respectively as shown in Table-4.

**Table-4: Tariff Rates (%) Imposed by China**

Countries	Yarn	Fabric	Made-ups
Bangladesh	3.5	8.5	11.5
Cambodia	0	0	0
<b>India</b>	<b>3.5</b>	<b>10</b>	<b>14</b>
Indonesia	3.5	0	0
Pakistan	3.5	0	5
Vietnam	0	0	0

Source: WTO Tariff Database

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### III. Policy Issues Hampering the Growth Prospects of the Cotton Spinning Sector

#### 1. Non-refund of Embedded Taxes hampering growth of Cotton Yarn

There are many embedded taxes which are not covered under GST such as agriculture cess, power and fuel surcharges, etc. which come to around 5% of total cost of the product. These taxes are not refunded to the exporters at any stage, hence, getting exported and substantially eroding the cost competitiveness of cotton yarn in the international markets. Until and unless, government reimburses these embedded taxes through ROSCTL, it will not be possible for the cotton yarn exporters to enhance their export performance.

#### 2. Erosion of Working Capital due to Long Pending TUFs Cases

Government has not been able to clear long pending TUF subsidies. It has resulted in erosion of working capital and created cash crunch situation in the industry. ATUFS guidelines are not clear and cumbersome, due to which many MSMEs are not able to avail the subsidy. There is a backlog of around Rs.9,000 crores under various TUF Schemes, which is eroding the working capital and performance of the spinning sector. This has led to many units becoming unviable and sick.

#### 3. Cotton Yarn being totally ignored by the Government from 2014

Government withdrew all the export incentives that were being offered to the Cotton Spinning sector before 2014-15 such as 2% incremental export incentive, 2% interest subvention and 3% focus market incentive, etc. The Government introduced the present scheme Merchandise Exports from India Scheme (MEIS) in 2014-15, however, it did not include the Cotton Yarn under MEIS while other segments of the value chain were fortunate enough to be part of the same. The above move of the Government proved detrimental to the overall growth of Cotton Spinning Sector as the cost competitiveness of the Cotton Spinning sector deteriorated substantially.

#### 4. USA-China trade war slows down the global demand impacting exports

The recent USA-China trade war has adversely impacted the trade scenario across the globe. It has led to the slowdown in global trade, including textiles, thus impacting the exports of cotton yarn from India as USA is one of the largest export destinations for Indian cotton textile items. Though, government is keeping a close watch on the outcome of the spat between USA and China, its adverse impact now on Indian textile industry is badly affecting the export prospects of the Indian Cotton Spinning sector.

#### 5. Higher Indian Cotton Prices

At present Indian cotton prices are prevailing higher than the international prices from March' 19 to June' 19, despite the fact that India is the largest producer of cotton. It is highest as compared to other cotton producing nations like Africa, USA, Brazil, etc. as shown in Table-5. It is creating more

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problems for the sector which is highly capital intensive and facing serious problems of cash loss. Moreover, in the last two months rupee has appreciated by 2.43% which is further adding to the woes of the industry. Moreover, there has been a substantial increase in MSP of cotton since last couple of years. At present MSP in India is higher than international prices of cotton. For 2019-20, MSP has been increased by Rs.105 per quintal and Rs.100 per quintal for medium staple cotton and long staple cotton, respectively.

Indian spinning sector is predominantly MSME in nature (over 55% of the spinning mills) and therefore, have no direct access for imported cotton (lack of LC facility and volume concerns). Since CCI is trading cotton on a commercial basis, MSME spinning mills are not getting any help from CCI and forced to pay higher prices for the cotton and incur huge losses.

**Table-5: Cotton Prices of India versus World (USC/LBS)**

GROWTH	Oct-18	Dec-18	Mar-19	Jun-19	Difference in Prices (%age) in Comparison to India
ICE Index	76	81	73	68	-22.70%
India	80	86	81	88	
W. Africa	87	92	84	79	-10.20%
USA	88	93	86	81	-8.00%
Brazil	88	92	85	80	-9.10%

Source: Cotton Association of India

### 6. Incentives by States for setting up new Spinning Units

State Governments are providing huge incentives for setting up of new spinning units in their states to attract investment in the textile sector. It is creating problems for the existing units to compete with them in the domestic as well as export markets and further driving the existing ones into Bankruptcy/NPAs as already there is 30% exportable surplus capacity. Out of 44 million spindle working capacity, 15 million are more than 15 years old and need immediate replacement failing which this capacity would come to a grind halt throwing a lot of people out of jobs.

State Governments should avoid providing incentives to the new spinning units. Government of Gujarat has already done it and other States may need to follow the same, except allowing for modernisation of existing capacities. Government of Tamil Nadu in its recent Textile Policy has extended 2% interest subvention only for modernization.

### 7. Appreciating Rupee – a de motivating factor for Spinning Sector

Fluctuation in Indian rupee has been a de motivating factor for the Indian exporters this year. Since 1<sup>st</sup> November 2018, Indian rupee has been continuously moving downward from Rs.73.63 to Rs.68.84 on 19<sup>th</sup> July 2019 showing an appreciation of 6.50% in last one and half year. This has led to

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poor realisation to the exporters and created problems while finalising deals with the foreign counterparts.

As the cotton spinning sector is going from a bad to worse phase, CITI is making the following recommendations to help the industry to overcome its present crises.

#### IV. Recommendations:

- Consider immediate inclusion of cotton yarn under ROSCTL Scheme on par with Garments and Made ups only. ROSCTL will not only help stoppage of taxes getting exported but will also make our products more competitive in the export markets and allow us to have more penetration and flexibility in negotiating prices with foreign buyers;
- Simplify TUFs guidelines and clear all the pending subsidies in a time bound manner (backlog of around Rs.9,000 crores under various TUF Schemes). Time bound subsidy clearances must be ensured as owing to variety of reasons thousands of crores of subsidy is pending from a long time which has made many units unviable and sick
- Exempt the textile industry from cross subsidy surcharge and facilitate to take advantage of open access power. Fix power tariffs based on load factor (cost to serve formula);
- Extend financial help for modernisation of existing spinning capacity which is old and needs replacement;
- Role of Cotton Corporation of India (CCI) needs to be defined clearly and Industry participation must be there at Board Level.
- Negotiate with China to give duty free access to Indian cotton textiles as it is giving to other nations under APTA to provide level playing field;
- Since MSP of cotton is higher than international prices, Government may introduce Direct Benefit Transfer (DBT) System to the cotton farmers of the price differentiation of MSP-Market Price of Cotton to ensure reasonable and market determined cotton prices for the Spinning sector(also recommended by CACP in their 2019-20 report);
- Cotton is a seasonal crop and India's two major markets (China & Bangladesh) buy yarn under 90-120 days credit. It requires high working capital on loan. Higher interest rates in India makes it difficult for mills to maintain high inventory stock throughout the year. Hence, 3% IES benefit may be provided to the Spinning sector to have a level playing field;
- State Governments may avoid providing incentives for setting up of new spinning mills for the next 3 years as it drives existing ones into Bankruptcy/NPAs due to excess capacity;
- Special restructuring/moratorium be allowed for spinning loans to ensure they don't slip into NPAs due to the unfavourable environment.
- Reduce Hank Yarn Obligation (HYO) from 30% to 15% (as already recommended by the office of the Textile Commissioner) and reduce the number of items from 11 to 3 prescribing the fabric construction details under Handloom Reservation Act to enable Ease of Doing Business.

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- GST Issues of refund on domestic sales be addressed immediately, so that refunds can come to the industry easily and enhance liquidity. Further, there are many small GST irritants which need important redressal for which a Special Officer may be assigned to look into all such issues.

In view of the above, we appeal to your good self to kindly consider our above recommendations favourably in the interests of the Indian Cotton Spinning Sector to bring in desired policy changes for the very survival and upliftment of the Industry.

Madam, if the above suggested policy changes are not implemented at the earliest, the day is not far away when the entire cotton value chain will be completely gripped in cash trapped situation and then it will be very difficult to revive the sector despite bringing the above stated policy suggestions.

We look forward to your kind support and cooperation in addressing the above issues.

Thank You.

With kind regards

**Rajiv Garg**  
President