ITALIA
Italian Trade Commission

The Textile Apparel & Clothing Industry in India

Market Research 2009

Market Research on

Textile Clothing & Apparels

Prepared for

ITALIA

Italian Trade Commission,

Trade Promotion Section of the Consulate General of Italy

Mumbai

By

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1. Introduction

This research study on Textile Clothing and Apparels sector in India has been commissioned by Italian Trade Commission (Trade Promotion Section of the Consulate General of Italy), Mumbai.

Ace Global Private Limited, a consultancy company based in New Delhi, has been appointed to undertake the study.

1.1 Objectives

The main objectives of the market research are to:

- Carry out market analysis of the production and distribution of textiles for clothing and apparels in India, geared to the Italian entrepreneurs interested in the Indian market.
- Identify potential buyers of products/ operators in India, interested in Italian fashion products.
- Identify concrete forms of industrial cooperation, both with local firms of equal size (small and micro enterprise) and market bracket (high range) and with suppliers of raw materials (yarn, woven silk, cotton and cashmere).
- Examine the various aspects of law in commercial matters (procedures for opening a credit line in India, general rules on the procedure of customs clearance of goods, customs duties and other payments, rules of certification).
- Check the main features of competition and the increasing needs of local consumers.

1.2 Coverage

The research covers the following aspects of the sector:

- Market Characteristics
- Consumer Behaviour and Preferences
- Production in India
- Structure of foreign trade
- Competition
- Potential for European companies in Indian market
- Regulatory framework and Legislations

- Marketing and Distribution structure
- Opportunities for Italian companies to enter the Indian market

1.3 Methodology

The methodology followed for the research work constitutes both secondary and primary research. The details of the research work have been provided below:

Secondary Research
The secondary research has been carried out to obtain the information on:

- Macro-economic scenario of Indian economy
- Sector specific government policies and regulations including taxes and custom duties
- Present status, growth trends, and the future outlook for the sector
- Import-Export data
- Sector specific details and relevant information

The main sources of the information were:

- Government of India websites related to economy and trade like Ministry of Finance, Department of Commerce, Department of Central Excise and Customs etc.
- Import and Export data from Directorate General of Commercial Intelligence and Statistics (DGCI&S), Govt. of India.
- Company Websites
- Catalogues of Indian manufacturing and marketing companies

Primary Survey
Primary survey was conducted to assess the market structure, size, and growth trends of the sector in India. The primary survey was carried out through interviews based on structured questionnaires, with manufacturers, importers, retailers raw material/semi-finished goods suppliers, and industry bodies in Delhi/NCR, Ludhiana, Coimbatore/Tirupur, Chennai, Mumbai and Ahmedabad.

A list of organizations covered through the primary survey is annexed. It is pertinent to highlight here that although most of the respondents were cooperative, some companies did not agree to meet the consultants while some shared only part of the information. In such cases, effort has been made to compile as much information as possible from secondary sources.

1.4 Draft Report

This Draft Report has been prepared based on the compilation and analysis of all information/data collected through secondary and primary research.

2. Market Characteristics

India's textile clothing and apparels sector has opened up significantly with the dismantling of quotas. Global apparel market is gradually shifting from western countries to Asia on account of cost competitiveness. India has also the added advantage of low labor cost along with other countries like Bangladesh, Indonesia and China.

2.1 Market Size

Apparel is the second largest retail category in India. There are a number of factors that have contributed to a definite swell in apparel market size. The rising affluence of the middle class due to rising disposable income and strong per capita income have considerably helped the industry to move ahead from a commodity level garment purchasing to a life style or a branded level product.

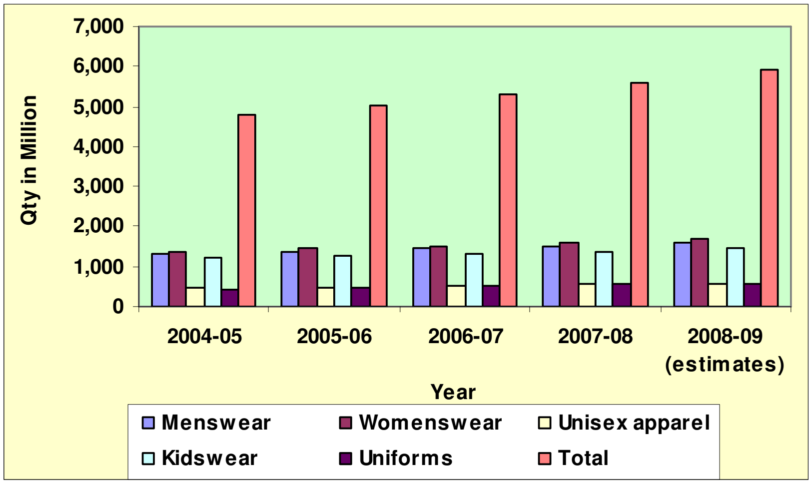
India's domestic market for clothing is currently worth Euro 20,219 million in 2008. It has registered a steady compounded annual growth rate (CAGR) of 13.6% in the past 5 years. Volume wise, apparel market has grown from 4.8 billion units in 2004 to 5.9 billion units in 2008 at a CAGR of 5.3%.

India's Apparel Market Size

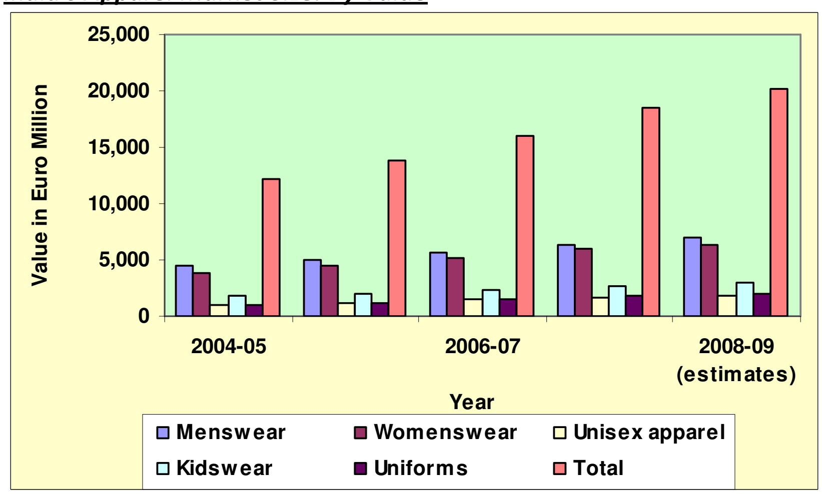
Category	2004		2005		2006		2007		2008 (estimates)	
	Volume (million units)	**Value (Euro Million)**	**Volume (million units)**	**Value (Euro Million)**	**Volume (million units)**	**Value (Euro Million)**	**Volume (million units)**	**Value (Euro Million)**	**Volume (million units)**	**Value (Euro Million)**
Menswear	1,328	4,450	1,379	4,975	1,443	5,605	1,516	6,381	1,600	6,938
Women's wear	1,368	3,856	1,443	4,433	1,523	5,106	1,609	5,923	1,676	6,414
Unisex apparel	466	1,014	486	1,152	519	1,461	548	1,695	579	1,816
Kids' wear	1,222	1,836	1,269	2,045	1,323	2,333	1,381	2,702	1,468	2,975
Uniforms	423	991	457	1,199	498	1,461	543	1,797	581	2,077
Total	**4,807**	**12,147**	**5,034**	**13,803**	**5,306**	**15,966**	**5,597**	**18,498**	**5,905**	**20,219**

CAGR By Volume: 5.3% ; By Value: 13.6% (**Conversion Rate:** 1 Euro = 64 Indian Rupees)

India's Apparel Market Size: By Volume



India's Apparel Market Size: By Value



2.2 Assessment of Demand and Market Potential in India

Indian textile clothing and apparel industry has been one of the worst affected under the impact of financial meltdown that has impacted the economies of US and EU. As a fall- out, India's domestic textile and apparels market suffered some set-back.

However, India's economy during the past 2/ 3 months has shown signs of recovery. Government of India has projected GDP growth rate of 6.5% for 2009-10. This is much better economic situation when one compares with the developed western countries.

Future Outlook for Clothing and Apparels sector

Apparel, is the second largest retail category in India. Retail boom in India continues to stimulate consumer demand for apparels and is estimated to grow at the rate of 12-15 per cent annually in terms of growth in rupee value. In fact, reflecting the huge opportunity in this segment, AT Kearney's 'Retail Apparel Index' ranks India as the third most attractive market for apparel retailers.

According to the Confederation of Indian Industry–Ernst & Young Textiles and Apparel Report 2007, the Indian sourcing market is estimated to grow at an annual average rate of 12 per cent from an expected market size of US$ 22 billion-25 billion in 2008 to US$ 35 billion-37 billion by 2011. More international brands have started queuing up to source from India, through vendors or wholly-owned units. German kids wear brand Kanz, Ireland's biggest linen manufacturer Baird McNutt, and Finnish textile major Ahlstrom are buying into the India garment story.

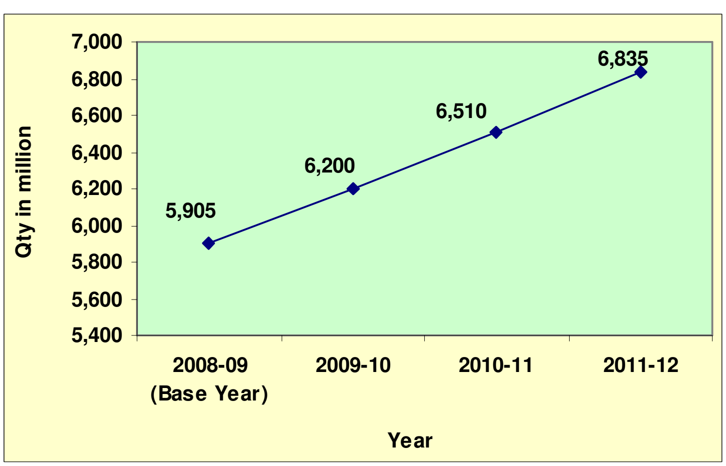
Consumer spending on apparel in India has grown over the last five years, touching the global benchmark of 5 per cent of the total income, according to Consultancy firm MCKinsey. Growth in consumer spending has been sustained on the strength of macro-economic fundamentals,

Economic recession has, however, indirectly helped India to retain some of its exports in the EU and US market. The latest import data from both the countries seem to substantiate the fact. In the wake of depression, US which was earlier sourcing from Mexico and Central and Latin America is moving to Asian countries particularly from China and also India and other countries. EU which was concentrating mainly from other EU countries has also taken the same strategy of moving towards Asian region.

2.3 Demand Projection

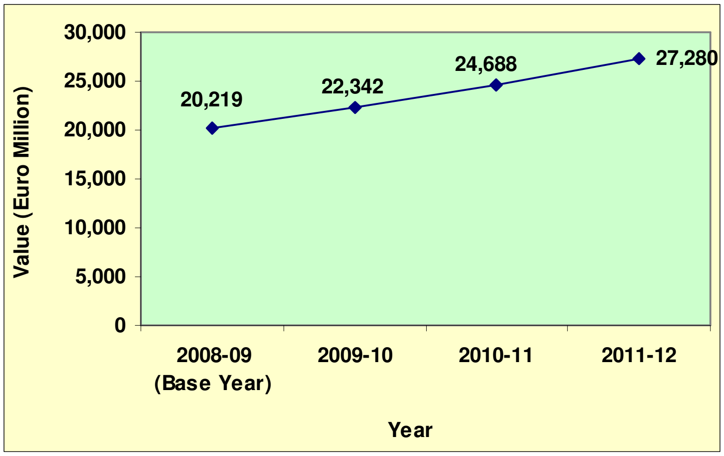
The domestic demand is projected to go up at a CAGR of 10.5% by value over the next 3 years. In volume terms the growth rate is expected to be 5% per year in the next three years.

Demand Projection Apparel Market: By Volume



CAGR: 5%

Demand Projection Apparel Market: By Value



CAGR : 10.5%

2.4 Key Market Drivers – Domestic market

Changing demographic profile works as a major stimulus to market development. India has a young consumer profile with over 65% of the population below 35% years of age. The composition of the Indian population is shifting more towards the age–group 20-49, viz, the working population with purchasing power. It seems to indicate that consumer life style and preferences are changing fast which is a prominent driving factor.

Rising Income Level

A large number of households are getting added to the consuming class with growing income levels. This has been a significant rise in high income group households from 5.5 million in 1995 to 18 million households in 2005 and from 18 million households to 31 million households for high middle income group. There has also been increase in the nuclear family structure, a growing number of educated and employed women, media proliferation and growing consumerism, have all contributed to the growth of organized retailing.

There is increase in awareness of the tier II cities and this is eroding the difference between the metros and the tier II cities in terms of urban aspirations.

Retail Space

Quality retail space has been one of the key hurdles for the development of organized retail. In 2007 there were 375 shopping centers / malls covering 90 million sq.ft quality retail space. Even though this still constitutes a small fraction of total retail in India, this growth in quality retail space is expected to impact the growth in the apparel market as there will be considerable change in the shopping habits. Impulse shopping is expected to go up up to 40% of total mall shopping. Awareness and sensitivity of brands will also be heightened.

Mall Culture

The emergence of mall culture and rapid development of malls would act as a catalyst in this retail growth story.

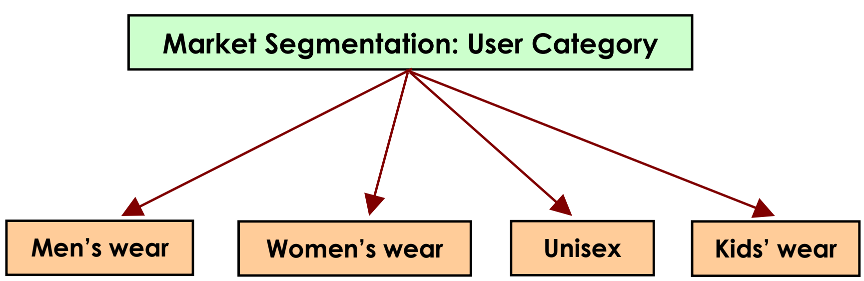
Drivers of Exports

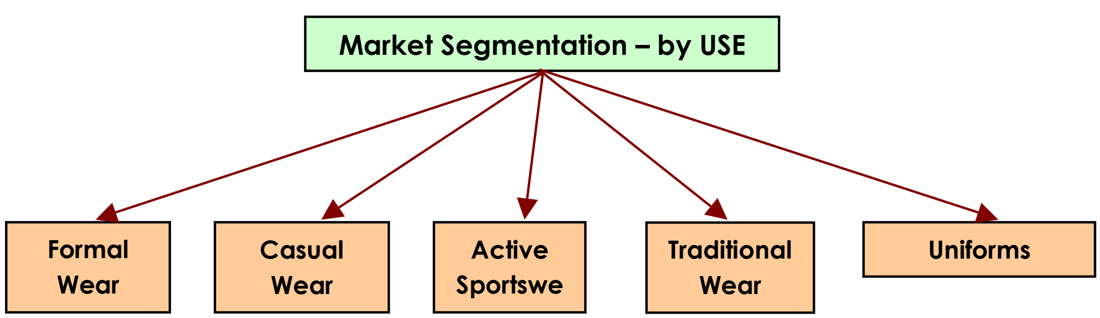
- Rising outsourcing budgets of retail giants
- Indian companies evolving from mere converters to vendor partners of global buyers
- Large outsourcing orders helping Indian companies build capacities, lower their per unit cost and become more competitive

2.5 Market Structure and Segmentation

Indian apparel market is vast, and fragmented and yet growing, characterized by presence of large number of players, widely dispersed across the country. The market is segmented in three different ways:

- Segmentation by User category
- Segmentation by Use
- Segmentation by Price





The market, well dispersed and fragmented on considerations of quality and price may be classified under three broad categories.

- **The low end market**: Lower and economy (marginally improved product segment in relation to the lower category), solely volume driven, products are mostly unbranded and dominated by large number of manufacturers. The manufacturers operating in these segments are beset with problems of high competition, limited capacities, inadequate logistics and paucity of funds. Essentially the manufacturers are regional or even local players.
- **The mid-range market**: This segment features medium range of products, though primarily volume driven, caters to diverse sections of Indian consumers across all regions, Its quality is by and large acceptable to all sections. *Majority of manufacturers, large and medium, have products on offer for these categories of consumers.*
- **The high end market**: MNCs and large Indian players operate in the premium and super-premium product categories. Exclusivity in product features such as high quality raw materials, embellishments, design developments and above all branding of products for years make the products very special. Elitist categories of consumers pay for the products on demand.

2.5.1 Market Segmentation by Price

MENSWEAR		WOMEN'S WEAR		UNISEX APPAREL	
Product Category	**Average Price (EURO/ Piece) Entry Level**	**Product Category**	**Average Price (EURO/ Piece) Entry Level**	**Product Category**	**Average Price (EURO/ Piece) Entry Level**
Shirts		**Ethnic wear**		**Jeanswear**	
Super Premium	28 and above	Super Premium	61+	Super Premium	**57+**
Premium	18 – 27+	Premium	34 – 60+	Premium	**26 – 56+**
Medium	12 – 17+	Medium	17 – 33+	Medium	**14 – 25+**
Economy	7 – 11+	Economy	9 – 16+	Economy	**7 – 13+**
Low	5+	Low	4 – 8+	Low	**3+**
Trousers		**Sarees**		**Woolens: Sweaters, Pullovers, Cardigans**	
Super Premium	36+	Super Premium	116	Super Premium	**34+**
Premium	25 – 35+	Premium	60 - 115+	Premium	**20 – 33+**
Medium	16 – 24+	Medium	26 – 59+	Medium	**7 – 19+**
Economy	8 – 15+	Economy	9 – 25+	Economy	**4 – 6+**
Low	5 – 7+	Low	2 – 8+	Low	**2 – 3+**

MENSWEAR		WOMEN'S WEAR		UNISEX APPAREL	
Product Category	**Average Price (EURO/ Piece) Entry Level**	**Product Category**	**Average Price (EURO/ Piece) Entry Level**	**Product Category**	**Average Price (EURO/ Piece) Entry Level**
Formal Suits, Jackets, Blazers*		**Petticoats**	1+	**Casual Blazers, Jackets Including Leather**	
Super Premium	226+			Super Premium	**73+**
Premium	137 – 225+	**Blouses**	1+	Premium	**39 – 20+**
Medium	97 – 136+			Medium	**21 – 38+**
Economy	58 – 96+	**T-Shirts**		Economy	**8 – 20+**
Low	25 – 57+	Super Premium	14+	Low	**3 – 7+**
		Premium	9 – 13+		
T-Shirts		Medium	7 – 8+	**Active Sportswear**	
Super Premium	23+	Economy	3 – 6+	Super Premium	**55+**
Premium	15 – 22+	Low	1 - 2+	Premium	**23 – 54+**
Medium	9 – 14+			Medium	**10 – 22+**
Economy	4 – 8+	**Tops (Woven)**		Economy	**4 – 9+**
Low	1 – 3+	Super Premium	17+	Low	**1 – 3+**
		Premium	10 – 16+		
Nightwear, Kurta-Pyjama		Medium	8 – 9+	**Socks**	
Super Premium	31+	Economy	3 -7+	Super Premium	**4+**
Premium	21 – 30+	Low	1 – 2+	Premium	**2 – 3+**
Medium	14 – 20+			Medium	**1 – 2+**
Economy	6 – 13+	**Western Suits, Coats, Blazers**	37+	Economy	**1+**
Low	2 – 5+			Low	**< 1**
		Trousers, Skirts	13+		

MENSWEAR		WOMEN'S WEAR		UNISEX APPAREL	
Product Category	**Average Price (EURO/ Piece) Entry Level**	**Product Category**	**Average Price (EURO/ Piece) Entry Level**	**Product Category**	**Average Price (EURO/ Piece) Entry Level**
Lungis/ Dhotis & Other Men's Apparel	2+	**Nightwear**			
		Super Premium	29+		
		Premium	18 – 28+		
		Medium	9 – 17+		
		Economy	4 – 8+		
		Low	**2 – 3+**		

Source: Year Book, 2009 Image Multimedia Pvt. Ltd. and Primary Research

2.6 Regional Characteristics of the Market

- The consumer behavior of a particular region which is economically not so developed is different as compared to developed ones. The consumers in the less developed region are understandably, more price-conscious. Always on the lookout for quality products, their guiding principle is 'value for money'. A lower per capita income, in eastern region for example, compared to western and northern India leads to a lower per capita purchasing power. Additionally, Delhi being centrally located and Mumbai, being the financial capital have certain advantages. The consumers who live in these cities are more exposed to latest apparel collections and are more familiar with design, quality and latest trendy fashion, as well as the luxury of greater choice.
- The relatively undeveloped region offers several in-built advantages as well. Fashion contenders setting out to do business in these regions find to their advantage that the region has not been exploited commercially and is prone to competition. The market, therefore, offers much but it needs to be cultivated in an organized manner.
- Local ready availability of products also influences a consumer. The decision to stick to a particular available brand seems to govern the purchase decision than the rarely available choicest product. Logistics, convenience and easy availability are important considerations for a local consumer.
- Regional considerations, such as climatic conditions etc., play a major role in so far as the purchase decision of apparels is concerned. For instance, a consumer in Northern region would spend more on woolen apparels and clothing than his counterpart in the west or south where the winter is much milder. Similar is the case with linen products. It has not found much acceptance among Indian consumers. Besides being expensive, linen has not become popular in a tropical country like India.
- There are certain common considerations for consumers regardless of locations. The consumers by and large are becoming increasingly more and more conscious of value of

money. Price sensitivity is a common concern. Purchase decisions of consumers anywhere are more guided a combination of demographic and psychometric factors, such as, disposable income, age-distribution, pattern of income distribution, quality of upbringing, aptitude, tastes and preferences and so on.

3. Consumer Behavior and Preferences

3.1 Characteristics of Indian Consumer

The Indian consumers are noted for the high degree of value orientation. Such orientation to value has labeled Indians as one of the most discerning consumers in the world. Even, luxury brands have to design a unique pricing strategy in order to get a foothold in the Indian market.

Indian consumers have a high degree of family orientation. This orientation in fact, extends to the extended family and friends as well. Brands with identities that support family values tend to be popular and are accepted easily in the Indian market.

Indian consumers are also associated with values of nurturing, care and affection. These values are far more dominant than values of ambition and achievement. Products, which communicate feelings and emotions gel with the Indian consumers.

Different Segments of Indian Consumers

Socialites: Socialites belong to the upper class. They prefer to shop in specialty stores, go to clubs on weekends, and spend a good amount on luxury goods. They are always looking for something different. They are the darlings of exclusive establishments. They go for high value, exclusive products. Socialites are also very brand conscious and would go only for the best known in the market.

The Conservatives: The Conservatives belong to the middle class. The conservative segment is the reflection of the true Indian culture. They are traditional in their outlook, cautious in their approach towards purchases; spend more time with family than in partying and focus more on savings than spending. Slow in decision making, they seek a lot of information before making any purchase. They look for durability and functionality but at the same time is also image conscious.

They prefer high value consumer products, but often have to settle for the more affordable one. These habits in turn affect their purchasing habits where they are trying to go for the middle and upper middle level priced products.

The Working Women: The working women's segment is the one, which has seen a tremendous growth in the late nineties. This segment has opened the floodgates for the Indian retailers. The

Indian women have grown out of their long-standing image of being homemakers. Working women have their own mind in decision to purchase the products that appeal to them.

The Rich: India has over 1 million rich households (income greater than Euro 8,000 per annum). These people are upwardly mobile. Some of them in this category are Double Income No Kids (DINK) households. They spend more on leisure and entertainment-activities than on future looking investments.

Indian consumers are also associated with values of nurturing, care and affection. These values are far more dominant that values of ambition and achievement. Product which communicate feelings and emotions gel with the Indian consumers.

Apart from psychology and economics, the role of history and tradition in shaping the Indian consumer behavior is quite unique.

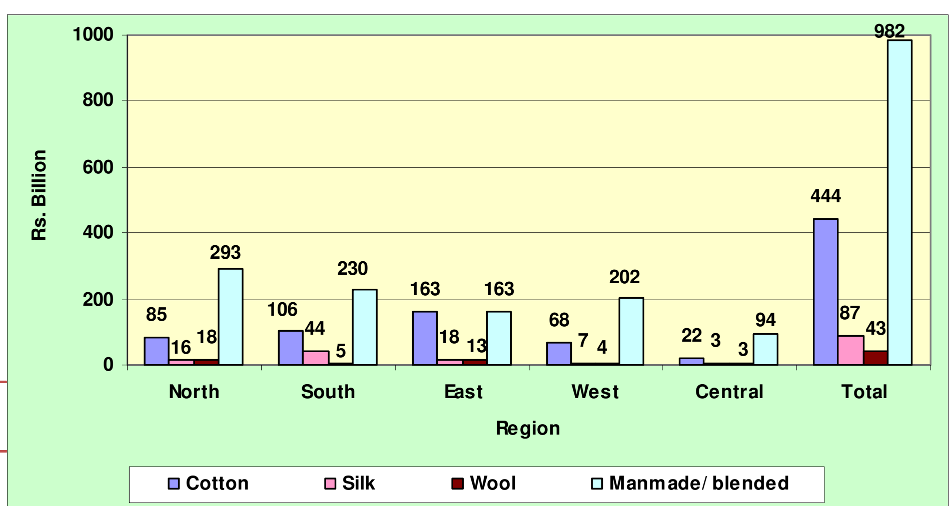
3.2 Purchase Pattern of Textile Products

Salient Features of a Consumer Survey on "Purchase Pattern of Textiles" by Textile Committee, Govt. of India, are summarized below:

- In India man-made fabric among various textile materials sells the most.
- Sales of cotton come next in the order, while wool and silk constitute negligible percentage of total sales.
- Central, northern and western regions are the major consumers of man-made fabrics.
- Maximum consumption of cotton is reported from the eastern region.
- Consumption of cotton in other regions is reportedly much less. This is an interesting revelation since India is ranked third as a cotton producing country in the world.

The relevant findings of the consumer purchase behavior of textiles based on a survey conducted by Textile Committee, Government of India are presented in the following tables:

Region Wise Purchase of Textiles (2006-07) – by value



Purchase of Textile Clothing and Garments

	Volume (million metres)			Value (Euro Million)		
	Urban	**Rural**	**Total**	**Urban**	**Rural**	**Total**
2006-07	8,467	15,563	24,030	11.56	12.75	**24.31**
Cotton	3,703	5,586	9,289	3.77	3.16	**6.94**
Silk	113	41	154	0.99	0.37	**1.36**
Wool	46	47	93	0.42	0.25	**0.67**
3-year CAGR	4.4%	4.8%	4.7%	7.0%	6.0%	**6.5%**
Cotton	3.3%	3.8%	3.6%	5.0%	1.2%	**3.2%**
Silk	3.8%	3.5%	3.7%	8.6%	13.4%	**9.9%**
Wool	-6.3%	-2.7%	-4.6%	1.4%	-2.2%	**0.0%**
Manmade/ blended	**5.4%**	**5.5%**	**5.5%**	**8.5%**	**8.0%**	**8.2%**

3.3 Preferred Brands

Preference for particular apparel brands depends on individual tastes and preferences and consumers are a divided lot. However, majority of Indian consumers look for certain common parameters like design, quality and above all merchandizing. Innovation in product design and fabric selection, are essential elements that add to value perception for a product. Sales discounts also tend to influence the purchase decisions of consumers provided the minimum parameters/ features are not compromised with.

Preferred Brands for Men's products

Name of the Manufacturer	Brand	Formal / Casual	Remark
Silver Spark Apparel Ltd, Owned by Raymonds India Ltd	Park Avenue	Formal	High-end Segment
Raymonds India Ltd	Parx	Smart Casuals	High – end Segment
Raymonds India Ltd	Monzoni	Luxury Life style Brand	High-end Segment
Raymonds India Ltd	Color Plus	Casual Wear	Medium & High –end Segment
Raymonds India Ltd	Notting Hill	Formal & Casual Wear	Medium Priced Segment

Raymonds India Ltd Aditya Birla Novo Ltd	Flying Machine Louis Philippe	Formal	Medium and High Priced Segment
Aditya Birla Novo Ltd	Van Heusen	Formal	High-end Segment
Aditya Birla Novo Ltd	Allen Solly	Formal & Casual	High-end Segment
DCM Benetton India Ltd	Benetton , Italy	Formal & Casual	High-end Segment
Celebrity Fashions Ltd	India Terrain	Formal	Medium Priced Segment
S Kumar Nationwide Ltd	S Kumars, Reid & Taylor & Tamarind	Formal & Casual	Medium Priced Segment
Levi Strauss (India) Ltd	Levi Strauss	Formal	High –end Segment
Blackberrys	Blackberry	Formal	High-end Segment
Cantabiles Retail India Pvt Ltd	Cantabile	Formal & Casual	Medium & High-end Segment

<u>Preferred Brands for Women's products</u>

Name of the Manufacturer	Brand	Formal / Casual	Remark
Raymonds India Ltd	Color Plus Women	Smart Casual Clothing	High- end Segment
Raymonds Ltd	Park Avenue Women	Premium Business Wear for Women, for Working Women Professionals	High – end Segment
Aditya Birla Nuvo Ltd	Van Heusen	Formal & Casual Wear	Medium & High-end Segment
Aditya Birla Nuvo Ltd	Allen Solly	Formal & Casual Wear	Medium & High –end
Aditya Birla Nuvo Ltd	Espirit	Formal & Casual Wear	High-end Segment
DCM Benetton India Ltd	Benetton	Casual,Fun-wear, Frocks, Dungarees, Skirts	High-end Segment
Mango	Mango	Formal & Casual	High-end Segment
Lee Cooper Ltd	LeeCooper	Formal	High-end Segment
Levi Strauss (India) Ltd	Levi Strauss	Formal	High-end Segment
Murjani Group	FCUK, Calvin Klein, Tmooy Hilfiger	Premium casual wear	High-end segment

3.4 Factors that Influence the Choices of Consumers

The consumers put major emphasis on product quality. Price is another important consideration attracting customers to a particular shop/brand/product. Pre and post sales services, parking facilities and ambience of the store or mall are the other major factors that attract local customers.

In the selection of products, the consumers do not give automatic precedence to local brands over national or foreign brands. Value for money has become the over-riding consideration. Fabric, texture and color followed by proper fits and sizing weigh more importance to the local consumers rather than just easy availability of local brands on account of proximity.

Local consumers of apparels in each region are also guided by:

- Window POS Displays
- Roadside Hoardings
- Gift Vouchers
- Fresh arrivals
- Event Sponsorships
- Discount Offers
- Celebrity Endorsements
- Advertisements / Features in Magazines
- Advertisements on TV/ Electronic Media

3.5 Degree of Elasticity of Demand

Considering that price elasticity depends to a large extent on the extent of competition among the manufacturers, the Lower and Economy segments of the market are usually price-inelastic. These segments being highly competitive do not allow the manufacturers any leverage to increase the price.

Higher up along the value chain, the affordability or paying capacity of the consumer is higher. The product market which characterizes mid-product segment becomes increasingly quality oriented and more diversified. Despite competitive pressure, the price in this segment keeps on rising. The demand for the product becomes price elastic.

In case of premium and super-premium product segments, where entire focus is on quality, style and brand value, the consumer is insensitive to change in price.

As per the findings of retailer survey, even an increase of 5% in the price has an effect on low end / economy category products, while mid-end category is usually able to absorb a 5-10% price increase without a major adverse impact on the sales of a brand.

4. Production in India

4.1 Evolution of the Industry

A significantly large section of Indian consumers were traditionally dependent on tailor–made dresses till the late 1980s. Even when over the past few decades western dresses started making inroads in to Indian households both in the urban and rural areas. Indian consumers used to purchase their fabric and hand over to the tailors for stitching. Tailor–made garments had a long era in India.

However, increasing availability of ready-made products in retail outlets in metros and other cities, together with media exposure largely worked towards proliferation of ready-made garments in India. Convenience, availability of wide choice of designs, colors and instant availability of products within budget were the factors that tilted Indian consumers towards 'ready-to-wear products.

Evolution of Ready-to- wear Market in India

Phase	Period	Description
Phase-I	Pre 1990's	**Era of Tailor Made Garments**
Phase-II	1990-95	**Ready to wear Inducted**
Phase-III	1995-2000	**Brands Flourished**
Phase-IV	2000-2004	**Retail Dominates**
Phase-V	**2005 onwards**	**Categories Rule**

Source: Images India

4.2 Industry Status

The Indian garment industry is highly labor- intensive with about 77,000 units spread over the entire country. The industry has two major sectors - knitted and woven. Weaving sector is predominantly small scale, having an average 4-5 power looms per unit. Knits have been more successful especially in export channels. The hosiery sector, on the other hand, has largely a domestic focus and is growing rapidly.

The average size of a manufacturing unit does not exceed 15 to 20 machines. The representation of large scale units in the industry as yet is not so significant, though the number of large scale players is slowly rising in tune with the growth trend of the industry. Many International players have also tied up with premier Indian companies.

Production Strategy

Three types of production strategies are normally used by apparel manufacturers. The first one is called **flexible manufacturing** strategy. The manufacturing firm will operate with the flexibility needed to meet the demands of its consumers depending upon the inherent ability to adapt immediate changes in the apparel market. The second method, known as '**Value added Manufacturing** Strategy is a quick response strategy that focuses on eliminating any unnecessary operations. The manufacturers take necessary action through cutting down extra time that delay production such as inspection, bundling, sorting etc requires extra time. '**Agile Manufacturing Strategy'**- the third strategy points to the dynamic ability of the firm to strategically use changes as a vehicle to grow in the new markets. It requires openness to change and flexibility to pursue change -- ability to anticipate consumer needs through innovation that makes it possible for the product to grow.

Product Categories

Indian manufacturers are now fully geared to meet diverse requirements of Indian garments. Broad product categories consist of:

- Men's wear
- Women's wear
- Children's wear
- Unisex wear

Growth of nuclear families and changing demographic structure, have been the main factors for creating separate demand for children garments. Children's products at present account for about 5 to 8% of total production. This report does not classify' children' as a distinct category as it forms part of either men's or women's wear.

A section of modern Indian society does not discriminate in the upbringing of male and female child. With equality in the level of upbringing, a large section of women use male uniforms. This trend is more pronoinced with women professionals who increasingly use 'male' outfits such as trousers, shirts, jackets etc. This has created a unique opportunity for Indian manufacturers to create a separate segment that suits the requirements of both the genders. The demand for unisex clothing is continually on the rise in India.

As part of office culture back at home in Japan, Suzuki introduced office/factory uniform for its employees at the Indian joint venture. Since then a large number of Indian companies have introduced uniform culture at offices and factories. Only a few garment manufacturers are producing office uniform. In view of the massive demand arising from Indian employers, market demand for office uniform wear has escalated strongly in recent years.

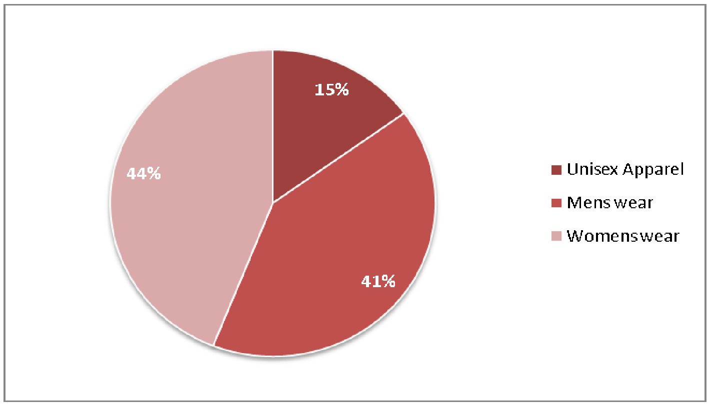
4.3 Local Production

Share by Product Category

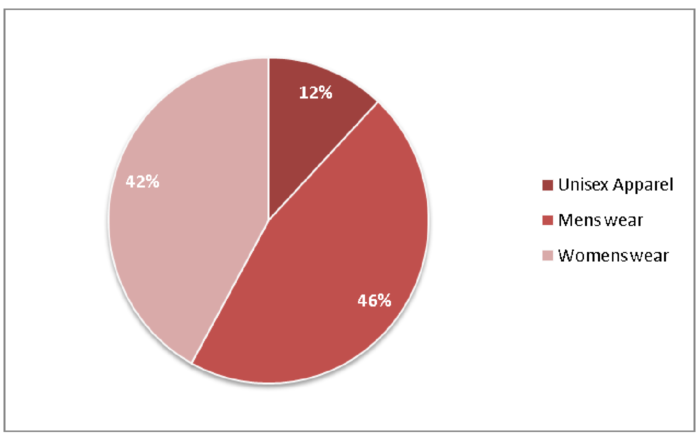
- The pattern of production of garment industry is weighted in favor of ladies garments. This is only to be expected since these garments lend themselves to all kinds of fashion and embellishments.

- Men's wear production lags behind women's wear in terms of share of production by volume. However, by the yardstick of value, men account for higher share in production.
-

Market Share of Production: By Volume (2007-08)



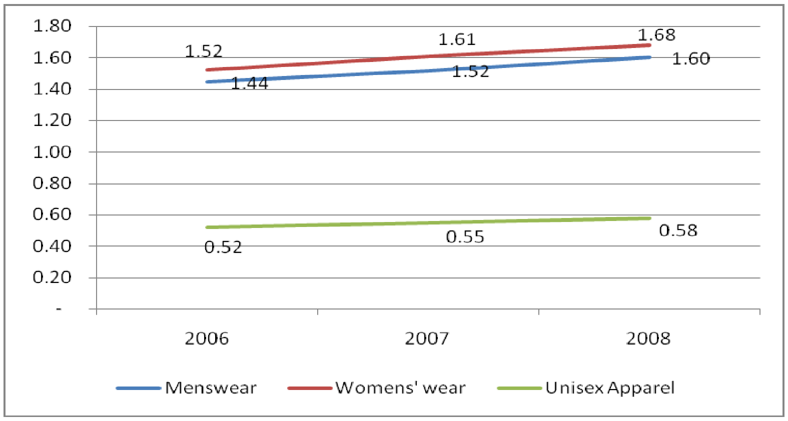
Market Share of Production: By Value (2007-08)



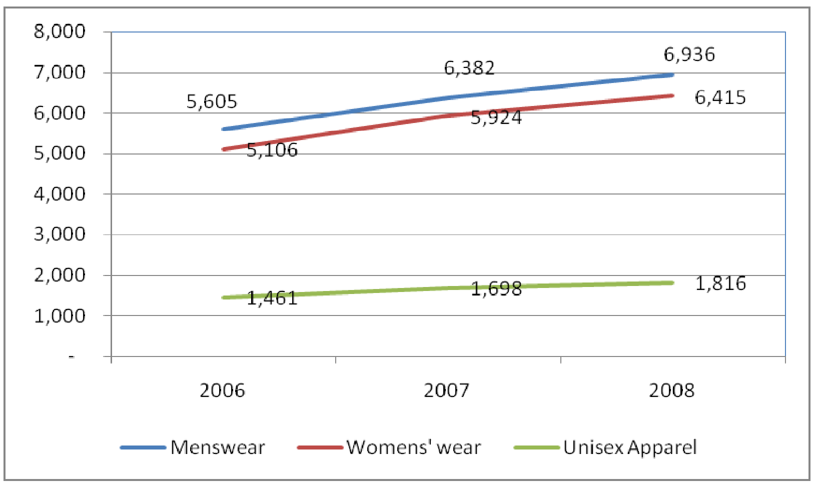
4.4 Growth Trend by Production Category

Volume wise, apparel production has been growing at a CAGR of little more than 5% in the past 3 years (Menswear 5.3%; Women's wear 5%; Unisex Apparel 5.5%). However, in Value terms, apparel production has been growing at an impressive CAGR of 11.5 % to 12% in the last 3 years (Menswear 11.4%; Women's wear 12.1%; Unisex Apparel 11.5%).

Production Trend: By Volume (million units)



Production Trend: By Value (million Euros)



Production Trend by products Within Each Category

Production Trend: By Volume

Category	Volume (Units in '000)			CAGR (%)
	2006-07	2007-08	2008-09 (estimates)	
MENSWEAR				
Shirts	345,865	360,300	379,680	4.7%
Trousers	206,010	214,100	224,000	4.2%
Formal Suits, Jackets, Blazers	14,700	15,501	16,550	6.1%
T-Shirts	89,754	94,000	98,000	4.5%
Nightwear, Kurta-Pyjama	83,630	86,150	90,320	3.9%
Innerwear	444,580	479,100	512,570	7.4%

Shawls, Stoles, Wrap-ons	14,775	15,660	16,130	4.5%
Lungis/ Dhotis & Other Men's Apparel	**243,400**	**250,700**	**263,100**	**4.0%**
Total Menswear	**1,442,714**	**1,515,511**	**1,600,350**	**5.3%**
WOMEN'S WEAR				
Ethnic wear	182,240	192,050	205,301	6.1%
Sarees	361,420	370,100	383,389	3.0%
Petticoats	105,000	108,100	109200	2.0%
Blouses	219,900	233,000	235500	3.5%
T-Shirts	20,180	21,750	23,651	8.3%
Tops (Woven)	16,160	17,289	18,200	6.1%
Western Suits, Coats, Blazers	800	910	990	11.2%
Trousers, Skirts	13,120	14,900	16,250	11.3%
Nightwear	105,070	110,100	114,000	4.2%
Lingerie	469,700	509,800	537,300	7.0%
Shawls, Stoles, Wrap-Ons	29,400	31,460	32720	5.5%
Total WOMENSWEAR	**1,522,990**	**1,609,459**	**1,676,501**	**5.0%**
UNISEX APPAREL				
Jeanswear	51,570	58,200	63,500	11.0%
Woolens: Sweaters, Pullovers, Cardigans	153,000	157,000	163,100	3.2%
Casual Blazers, Jackets Including Leather	19,100	19,900	20,879	4.5%
Active Sportswear	17,500	20,500	21,300	10.3%
Socks	250,900	264,200	280,500	5.7%
Ties/ Scarves	27,180	28,250	29,250	3.7%
Total UNISEX APPAREL	**519,250**	**548,050**	**578,529**	**5.5%**

Production Trend: By Value

Category	**Value (Euro Million)**			**CAGR (%)**
	2006-07	**2007-08**	**2008-09 (estimates)**	
MENSWEAR				
Shirts	2110.94	2416.41	2644.22	11.9%
Trousers	1473.44	1673.28	1808.44	10.8%
Formal Suits, Jackets, Blazers	504.53	570.16	626.56	11.4%
T-Shirts	388.28	446.88	477.50	10.9%
Nightwear, Kurta-Pyjama	252.34	282.19	303.75	9.7%
Innerwear				
Innerwear	400.78	475.94	517.97	13.7%
Shawls, Stoles, Wrapons	56.25	64.53	72.03	13.2%
Lungis/ Dhotis & Other Men's Apparel	418.75	452.34	485.94	7.7%
Total Menswear	**5605.31**	**6381.72**	**6936.41**	**11.2%**
WOMEN'S WEAR				
Ethnic wear	1229.69	1432.97	1564.22	12.8%

Sarees	2079.69	2355.16	2537.81	10.5%
Petticoats	126.56	136.72	142.03	6.0%
Blouses	270.31	303.91	316.41	8.2%
T-Shirts	51.41	58.91	64.06	11.6%
Tops (Woven)	52.19	60.31	65.47	12.0%
Western Suits, Coats, Blazers	29.69	39.84	45.31	23.5%
Trousers, Skirts	175.00	226.56	260.47	22.0%
Nightwear	239.69	270.47	288.44	9.7%
Lingerie	730.47	896.56	968.13	15.1%
Shawls, Stoles, Wrap-Ons	121.09	142.34	162.50	15.8%
Total WOMEN'S WEAR	**5105.78**	**5923.75**	**6414.84**	**12.1%**
UNISEX APPAREL				
Jeanswear	406.88	481.25	515.31	12.5%
Woollens: Sweaters, Pullovers, Cardigans	510.00	561.09	587.81	7.4%
Casual Blazers, Jackets Including Leather	206.41	237.19	256.72	11.5%
Active Sportswear	112.34	155.63	175.16	24.9%
Socks	166.88	194.53	209.38	12.0%
Ties/ Scarves	58.28	67.97	71.88	11.1%
Total UNISEX APPAREL	**1460.78**	**1697.66**	**1816.25**	**11.5%**

Production Trend by Price Segments

MENSWEAR

Category	**Figure in percentage**		
	2006-07	**2007-08**	**2008-09 (estimates)**
Super Premium	1%	1%	1%
Premium	6%	6%	6%
Medium	11%	12%	12%
Economy	27%	27%	28%
Low	49%	48%	47%
Total	**100%**	**100%**	**100%**

WOMEN'S WEAR

Category	**Figure in percentage**		
	2006-07	**2007-08**	**2008-09 (estimates)**
Super Premium	0.3%	0.3%	0.3%

Premium	2%	2%	2%
Medium	14%	15%	14%
Economy	33%	34%	34%
Low	51%	49%	49%
Total	**100%**	**100%**	**100%**

UNISEXWEAR

Category	**Figure in percentage**		
	2006-07	**2007-08**	**2008-09 (estimates)**
Super Premium	0.5%	0.5%	0.5%
Premium	4%	4%	4%
Medium	15%	15%	15%
Economy	30%	30%	31%
Low	51%	50%	49%
Total	**100%**	**100%**	**100%**

Detailed tables are attached as Annexure, giving breakdown under each category by price segment.

4.5 Key Players

The key players of the industry have been listed below on the basis of the following criteria:

- Comparative evaluation of brand equity of the company
- Marketing reach of the companies in terms of retail outlets across the country and retail outlets by city.
- Image and reputation of the company.

Name of The Manufacturer	**Products Manufactured**
Raymond Ltd. Mumbai	**Garments:** worsted, woolen and linen fabrics to creating suits, trousers and apparel. **Monzoni:** super premium formalwear and sportswear including suits, shirts, trousers and high quality accessories such as handcrafted silk ties, pure leather shoes crafted in Europe and leather belts.
	Park Avenue: The shirts, trousers, suits and jackets need little care and therefore convenient to carry while travelling.

Name of The Manufacturer	Products Manufactured
	ColorPlus: one of India's leading casual wear brands. Our shirts, trousers, knits, survival gear and accessories have always met international quality standards.
	Parx: premium casual lifestyle brand which is positioned to cater to the needs of consumers who are looking for dressing up for life "beyond work".
	Zapp: range of apparel, accessories and lifestyle products for kids between the age group of 4 to 14 years.
	Notting Hill: suits, shirts, trousers, jeans, t-shirts and also accessories like ties, handkerchiefs and socks.
Arvind Limited Ahmedabad	**Flying Machine, New Prot & Ruf & Tuf:** Jeans **Excalibur :** Shirts **Arrow :** Formals & Casuals **Lee :** Jeans **Wrangler :** Jeans **Tommy Hillfiger :** High Fashion Products
Aditya Birla Nuvo Ltd. Mumbai	**Louis Philippe / Upper Crest:** Silk Trousers, Blazer, Ties, T-shirts **Van Heusen:** Winter wear, Knits **Allen Solly:** Formal Trousers and Shirts and Casuals **Peter England**: Formal shirts and formal and casual trousers for men **Espirit:** T-shirts and Shirts
DCM Benetton India Ltd Benetton India Private Limited Gurgaon	**Benetton Kids:** Sweaters, Pullovers, Corduroy Jackers, Denim Wear **Girls wear:** Casual, fun wear, frocks, dungarees, skirts
S Kumar Nationwide Ltd. Mumbai	**S. Kumars, Reid & Taylor, Tamarind** Suits, Polo style shirts, Khaki Trouser, Navy Blazer, Silk Ties, Jeans, T Shirts
Levi Strauss (India) Ltd Bangalore	Jeans for men and women
Lee Cooper **Lee Cooper India Pvt. Ltd.** Mumbai	**Men's:** Jeans, T-Shirts, Other Tops, Headgear & Belts **Women's:** Jeans, Shirts & Tees, Other Tops, Other Bottoms, Belts & Accessories
CELEBRITY FASHIONS LTD. Chennai	**Men's wear**

Profiles of key Market Players are annexed.

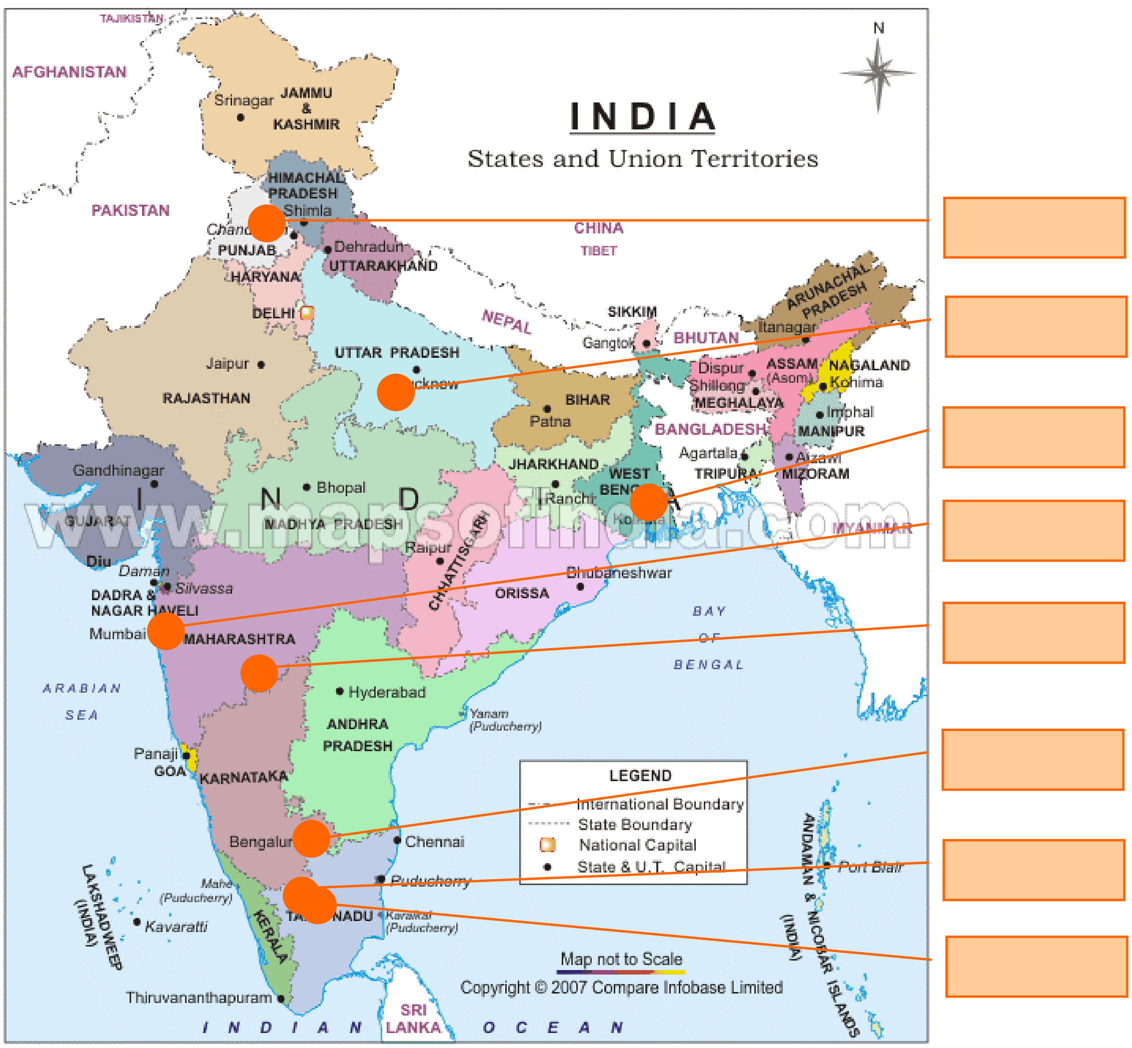
4.6 Product Range

Indian apparel industry manufactures wide range of products, woven and knit, formal and casual, to cater to the diverse requirements of customers based on their economic status.

Category	Type of Garments
Men's wear	**Shirt, Trouser, Formal Suit, Jacket, Blazer, T-shirt, Night wear, Pajama, Innerwear, Lungi, Dhoti etc.**
Women's wear	**Ethnic wear, Sari, Petticoat, Blouse, T-shirt, Top (Woven), Western Suit, Coat, Blazer, Trouser, Shirt, Shirt, Nightwear, Lingerie, Shawl, Stole, Wrapper etc.**
Unisex Apparel	**Jeans wear, Woolen, Sweater, Pullover, Cardigan, Casual Blazer, Jacket including leather, Active Sportswear, Sock, Tie, Scarves etc**
Work -wear	**Office designated trouser, shirt or women's wear, Ladies lab coat, Apron etc**

4.7 Major Concentration Areas for Production

Indian garment manufacturing is conducted mainly in clusters all around the country. Textile cluster development in the form of textile parks is one of major Government policy to boost garment production. The Government provides clusters various technological and financial assistance with a view to increase competitive edge of Indian products.



INDIA
States and Union Territories
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AFGHANISTAN
TAJIKISTAN
PAKISTAN
CHINA
TIBET
NEPAL
BHUTAN
BANGLADESH
MYANMAR
SRI LANKA
JAMMU & KASHMIR
Srinagar
HIMACHAL PRADESH
Shimla
PUNJAB
HARYANA
DELHI
Dehradun
UTTARAKHAND
UTTAR PRADESH
RAJASTHAN
Jaipur
GUJARAT
Gandhinagar
Diu
Daman
Silvassa
DADRA & NAGAR HAVELI
Mumbai
MAHARASHTRA
MADHYA PRADESH
Bhopal
CHHATTISGARH
Raipur
BIHAR
Patna
JHARKHAND
Ranchi
WEST BENGAL
SIKKIM
Gangtok
ARUNACHAL PRADESH
Itanagar
ASSAM
(Asom)
Dispur
Shillong
MEGHALAYA
NAGALAND
Kohima
Imphal
MANIPUR
Agartala
TRIPURA
Aizawl
MIZORAM
ORISSA
Bhubaneshwar
Hyderabad
ANDHRA PRADESH
Yanam
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Panaji
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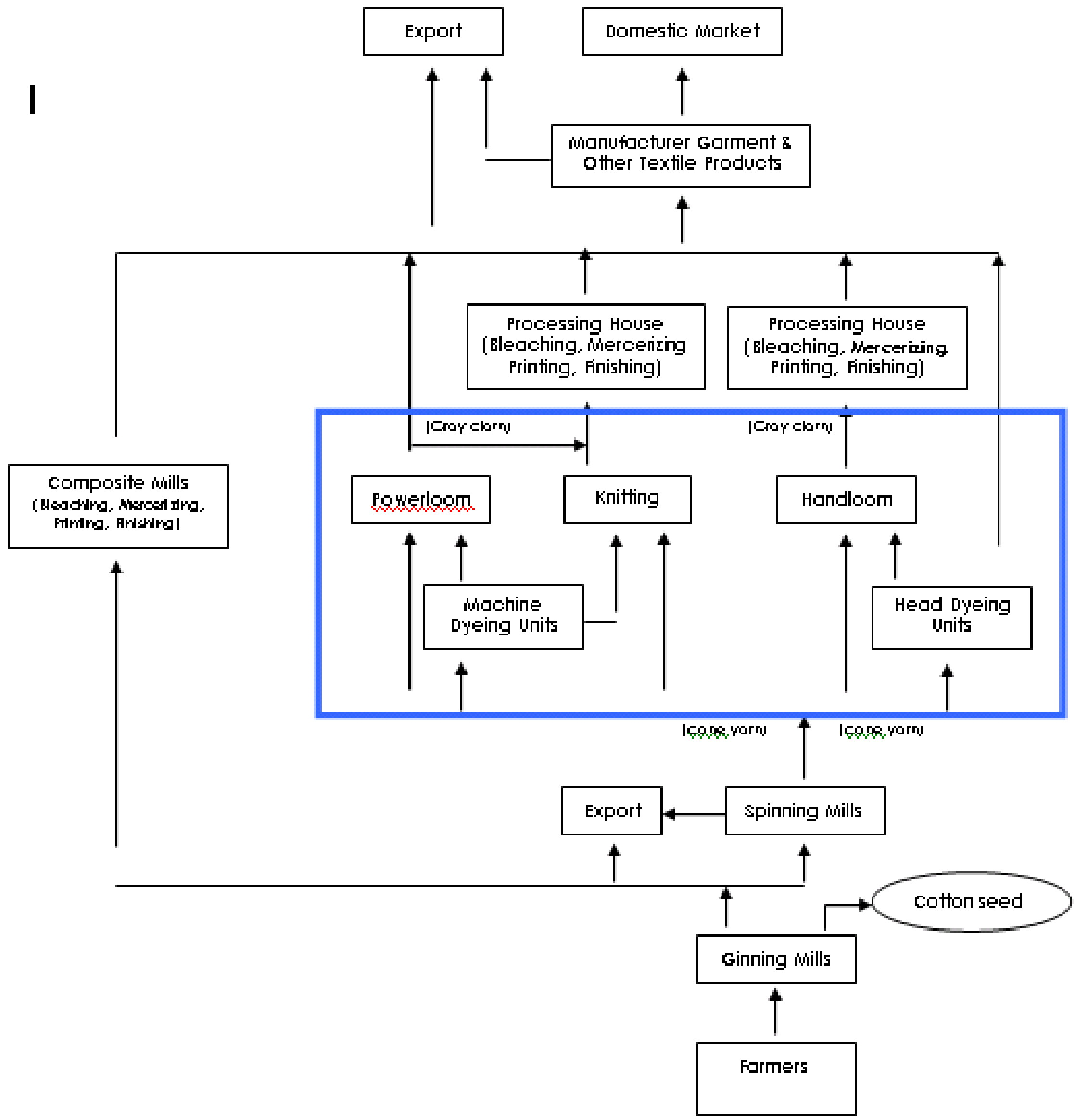
4.8 State of Technology

4.8.1 The Textile and Apparel Supply Chain

The Textile and Apparel Supply Chain comprises of diverse raw material sectors, ginning facilities, spinning and extrusion processes, processing sector, weaving and knitting factories and garment manufacturing.

Structure of the Cotton Textile Industry



The Indian textile and apparel industry exhibit varying levels of technology ranging from traditional to most modern and this has impacted the overall growth and productivity of the sector.

Spinning Sector

Indian spinning sector is perhaps most competitive globally in terms of variety, unit prices and production quantity. Though cotton is the fiber of preference the world over, man-made fiber (polyester fiber and polyester filament yarn) is also produced by large and medium size producers.

Spinning sector is technology intensive and productivity is affected by the quality of cotton and the cleaning process used during ginning.

Weaving Sector

Weaving sector is predominantly small scale, has on an average 4.5 power looms per unit, suffers from outdated technology, and incurs high co-ordination costs. Knits have been more successful in export sector. The handloom sector (including khadi, silk and some wool) serves the low and the high ends of the value chain – both mass consumption products for use in rural India as well as niche products for urban & exports markets. Three distinctive technologies are used in the sector – handlooms, power looms and knitting machines. It produces, chiefly, textiles with geographical characterization) and in small batches. Handloom production is mostly rural (employing mostly household weavers) and revolves around master-weavers who provide designs, raw materials and often the looms.

Weaving, using power looms has traditionally been done by composite mills that combine it with spinning and processing operations. Over the years, government incentives (especially saris and grey cloth) have facilitated the production based on power loom factories and away from composite mills.

The processing sector, i.e., dyeing, finishing and printing activities, is mostly done in the small scale. The largest amongst these comprise operations like dyeing and finishing. The processing sector is mostly small scale. The largest amongst these involve dyeing operations. The remaining are independent process houses (or part of composite mills) that use automated, semi-automated large batch or continuous processing.

Production Infrastructure of Indian Textile Industry

Financial Year	Units	2001	2004	2005	2006	2007	2008
Textile Mills (Non-SSI)	No.	1,846	1,787	1,789	1,780	1,808	**1,773**
Spinning mills	No.	1,565	1,564	1,566	1,570	1,608	**1,597**
Composite mills	No.	281	223	223	210	200	**176**
Exclusive Weaving Mills (Non-SSI)	No.	203	206	202	204	204	**179**

Spinning Mills (SSI)	No.	996	1,135	1,161	1,173	1,236	**1,219**
Powerloom units	Thousands	367	413	426	434	440	**470**
Installed Capacity							
Spindles (SSI and Non-SSI)	Millions	37.91	37.03	37.47	37.51	39.50	
Rotors (SSI and Non-SSI)	Thousands	454	482	500	520	601	
Looms (Organized Sector)	Thousands	140	105	103	92	88	
Powerlooms	Thousands	1,662	1,837	1,903	1,944	1,990	**2,106**
Handloom	Thousands	3,891	3,891	3,891	3,891	3,891	
MMF	Million Kg.	1,081	1,101	1,189	1,191	1,663	**1,659**
MMF Yam	Million Kg.	1,128	1,228	1,337	1,374	2,053	**2,101**
Worsted spindles (Woolen)	Thousands	598	604	604	604	604	
Non-worsted spindles (Woolen)	Thousands	426	437	437	437	437	
Fibres Production							
Raw cotton	Million Kg.	2,380	2,907	4,131	4,148	4,760	**5,355**
Man-made fibres	Million Kg.	904	953	1,023	968	1,139	**1,244**
Raw wool	Million Kg.	48.04	48.50	44.60	44.90	45.20	
Raw silk	Million Kg.	15.86	15.74	16.50	17.31	18.76	
Yarn Production							
Cotton	Million Kg.	2,267	2,121	2,272	2,521	2,824	**2,948**
Blended	Million Kg.	893	931	585	588	635	**677**
MMF	Million Kg.	920	1,118	366	366	355	**378**
Fabric Production							
Cotton	msm	19,718	18,040	20,655	23,873	26,238	**27,205**
Blended	Msm	6,351	6,068	6,032	6,298	6,882	**6,888**
100% NC	**msm**	**14,164**	**18,275**	**17,998**	**18,637**	**19,545**	**21,175**

NC: non-cotton; **msm:** million square metres

Source: Market Size & Share, CMIE, 2009

4.8.2 Apparel Sector

A recent national study on technological up-gradation needs of Ready-made Garment (RMG) Industry conducted by Garment Manufacturing Technology (GMT) Department of National Institute of Fashion Technology (NIFT) has made certain important observations. The study reveals that in export sector only 21% of manufacturers use modern technology by Indian Standards and another 70% may be classified as somewhere between modern technology and 'primitive' technology. No company has overall rating of world class technology. However, 17% consider themselves to be owning world class plant and machinery.

In apparel manufacturing for domestic sector, the situation is not different. The manufacturers tend to overestimate the technology level of their plants. Only 9% factories are characterized as being considered modern by Indian Standards though 33% of manufacturers sincerely believe that they have modern plants. 16 percent owners feel that they have a world class plant but actually none of them, according to the study, have reached that stage.

Apart from the quality of fabric, the manufacturing processes in the apparel industry play an important role to achieve the level of quality standards. This is also evident from one of the studies conducted by the GMT Department at NIFT which is based on a comparative analysis of industry norms in the industrialized countries and Indian Apparel industry.

Strategies for Technology Up gradation

Indian apparel manufacturers have been engaged in the process of technology up gradation in a gradual manner. The technology up gradation plans for each establishment need to be drawn by individual companies as a part of overall organizational strategies. A piecemeal approach is no solution. Steps involved in developing technology strategy include knowing the present status, understanding buyer needs, knowing technological options available and so on.

On the basis of current status of technology level in factories and taking in account the views expressed by representatives of international buyers, broad guidelines for the technology mix for different product specialization and price points have been developed by GMT Department, NIFT.

Machine mix for sewing, pre-sewing and post-sewing, including software applications have been recommended for factories aiming at low, medium and high price segments of the international market. Buyers may not have specific technology requirement in all micro areas but there might be minimum expectations which a plant of today must have to qualify to be a supplier. These equipments are termed as `order qualifier'. The equipments which shall further improve quality and technology status of the factory but are not must are termed as `desirable'. Certain machines are shown as `optional'. These will be added depending on product needs.

Quality

Requisite quality checking must be followed at each stage of manufacturing process in order to maintain the quality.

Large Indian undergarment manufacturers in the organized sector conform to BIS specifications for manufacture, raw material usage and accessories. Polluting dyes are banned

Foreign collaborations

Lucrative and burgeoning growth of Indian apparel industry has attracted many international players. Foreign players have been attracted to Indian market for two major considerations. First, the market size is one the largest in the world. The consuming class in the premium and super-premium segment is rising significantly over the years and this has become major focus of interest for foreign players. Secondly, another major purpose of foreign players is ‘use of India’ as a major launching pad for maximizing third country exports.

Major Foreign Collaborations in Indian Apparel Industry

Name of Indian Company	Foreign Manufacturer	Nature & Area of Collaboration
Trent Ltd, Tata Group	Industria deDiseno Textil Sociedad Anonima (Inditex SA), Spain	JV to promote Zara Stores in India
Arvind Mills Ltd	VF Corporation Lee, Wrangler, Vanity Fair, Nautica, JanSports and Kipling	JV
Arvind Mills Ltd	CF ITALIA, Italy	Technical Collaboration
Raymond India Ltd	Gruppo Zambaiti, Italy	JV
Raymond India Ltd	Lanificio Fedora, Italy	JV
Raymond India Ltd	UCO NV, Belgium	JV
Madura Garments Ltd, Group Company of Aditya Birla Novo Ltd	Espirit Global Ltd, USA	JV
DCM Benetton India Ltd	Benetton International, The Netherlands	JV for development of knits
Future Group	Lee Cooper Ltd,	JV
Fabindia	East, UK	JV to include women's wear (retailing skirts, trousers, dresses and tops)
Reliance	Wrangler, John Player & Lee	Strategic Partnership

Recent International Entries	
International Brands	**Indian partner**
Diesel	Reliance
Holland and Sherry	Digjam
Giorgio Armani, D&G, Salvatore Ferragamo, Boggi, Piquardo, Emporio Armani	DLF
Internacionale	SKNL
Zara and Topshop	Trent (Tata group)
Carter's	Planet Retail

4.9 Availability of Raw Materials & Semi-processed Fabrics

The industry consists of several sub-sectors: spinning, weaving, knitting and garmenting. It also uses different raw materials – cotton, Jute, wool, Silk, man-made and synthetic fibers.

Currently India is the second largest producer of raw cotton in the world next to China. Production of both cotton and MMF based fabrics have increased at a high rate in recent years because of increased cotton production and availability, higher prices, healthy growth in demand and Government incentives.

Composite Mills

Composite mills are integrated large scale mills that combine spinning, weaving and sometimes fabric finishing. About 176 composite mills were operating in March,2008 with an installed capacity of 5.63 million spindles. Between 1995 and 2008 the weaving capacity of the composite mills has declined from 111,540 looms to 55,480 looms. The decline has been compensated by increase of power loom in the hosiery sector.

Spinning Mills

These mills convert cotton or MMF in to yarn to be used for weaving and knitting. India had about 2,816 spinning mills including SSI units. These had an installed capacity of 34.41 million spindles.

Weaving and Knitting Mills

These mills convert cotton, man-made or blended yarns in to woven or knitted fabrics. This sector consists of about 3.89 million handlooms, 470, 000 units

Fabric Finishing Facilities

Overall about 2,300 processors are operating in India including about 2100 independent units and 200 units that are integrated with spinning, weaving or knitting units.

Fiber & Yarn

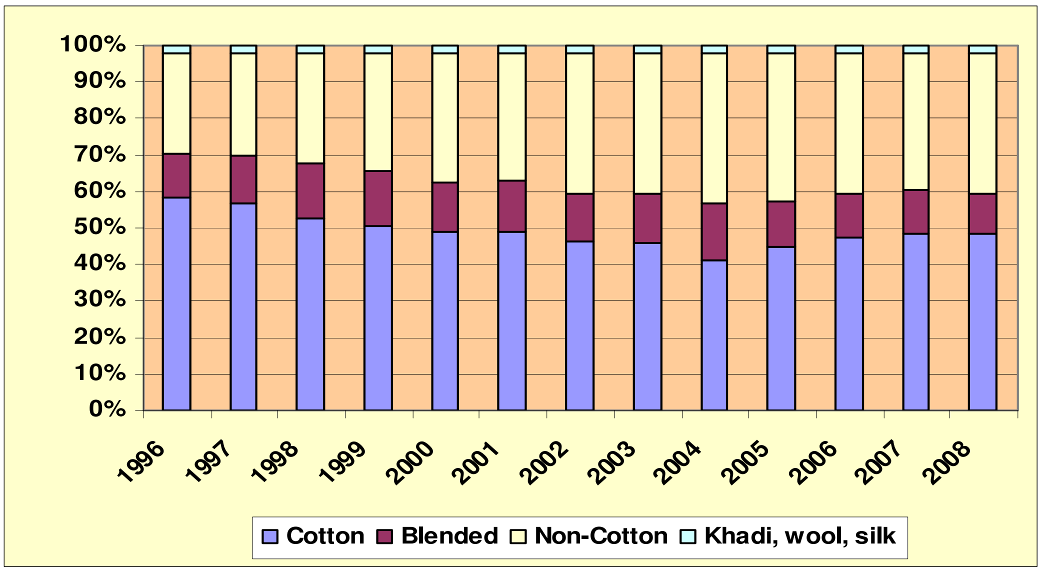
- Domestic cotton production has grown at 19% CAGR in the past 4 years. Approximately 62% of India's production comprises of cotton or cotton blends, with their share increasing during financial year 2005-08, primarily because of higher cotton availability. Domestic cotton production has grown at 19% CAGR in the past 4 years.
- India has great advantage in Spinning Sector and has a presence in all process of operation and value chain. India is one of the largest exporters of Yarn in international market and contributes around 25% share of the global trade in Cotton Yarn. India is the fifth largest producer of synthetic fibers/yarn. India accounts for 12 per cent of the world's production of textile fibers and yarn. The country has a strong base for man made fiber of cellulose and non-cellulose origin. Production of polyester staple fiber and viscose staple fiber has grown at 9% CAGR and 4% CAGR respectively during the past 4 years.
- India is the second largest producer of silk and the only country to produce all four varieties of silk – mulberry, TUSAR, ERI and MUGA. Silk production has grown at 7% CAGR during the past 4 Years.

- Indigenous wool, production, however, has not grown significantly.

Domestic Production of Raw Material and Semi-Processed Fabric

	Production (msm)						Growth		
	2004	2005	2006	2007	2008	2009 (H1)	2008	3-year	2009 (H1)
Cotton	18,040	20,655	23,873	26,238	27,205	13,371	3.7%	9.6%	**-1.3%**
• **Mills**	969	1,072	1,192	1,305	1,249	626	-4.3%	5.2%	**0.5%**
• **Handloom**	4,519	4,792	5,236	5,717	6,076	2,894	6.3%	8.2%	**-3.8%**
• **Powerloom**	6,370	7,361	8,821	9,647	9,932	4,717	3.0%	10.5%	**-5.2%**
• **Hosiery**	6,182	7,430	8,624	9,569	9,948	5,134	4.0%	10.2%	**3.8%**
Blended	6,068	6,032	8,298	6,882	6,888	3,630	0.1%	4.5%	**6.3%**
• **Mills**	253	243	252	330	422	256	27.9%	20.2%	**26.1%**
• **Handloom**	117	146	145	99	123	46	24.2%	-5.6%	**-16.4%**
• **Powerloom**	4,688	4,526	4,632	5,025	4,918	2,636	-2.1%	2.8%	**8.7%**
• **Hosiery**	1,010	1,117	1,269	1,428	1,425	692	-0.2%	8.5%	**-5.5%**
100% NC	17,613	17,998	18,637	19,545	21,175	10,102	8.3%	5.6%	**-0.5%**
• **Mills**	212	211	212	111	110	46	-0.9%	-19.5%	**-14.8%**
• **Handloom**	857	784	727	720	748	364	3.9%	-1.6%	**-0.8%**
• **Powerloom**	15,889	16,438	17,173	18,207	19,886	9,469	9.2%	6.6%	**-0.6%**
• **Hosiery**	655	565	525	507	431	223	-15.0%	-8.6%	**6.7%**
Total	41,721	44,685	48,808	52,665	55,268	27,103	4.9%	7.3%	**-0.1%**
• **Mills**	1,434	1,526	1,656	1,746	1,781	928	2.0%	5.3%	**5.5%**
• **Handloom**	5,493	5,722	6,108	6,536	6,947	3,304	6.3%	6.7%	**-3.6%**
• **Powerloom**	26,947	28,325	30,626	32,879	34,736	16,822	5.6%	7.0%	**-0.6%**
• **Hosiery**	7,847	9,112	10,418	11,504	11,804	6,049	2.6%	9.0%	**2.8%**
Khadi, Wool, Silk	662	693	769	724	763	381	5.4%	3.3%	**0.0%**
Total	**42,383**	**45,378**	**49,577**	**53,389**	**56,031**	**27,484**	**4.9%**	**7.3%**	**-0.1%**

Share of Different Fibres in Cloth Production



Import of Raw Material and Semi-processed Fabrics

Total raw material imports into India, including raw wool, silk, cotton along with yarn and fabric for textiles was of worth US $ 2260.52 million in 2007-08. In 2008-09 (April-Dec) it was US $ 1886.63 million.

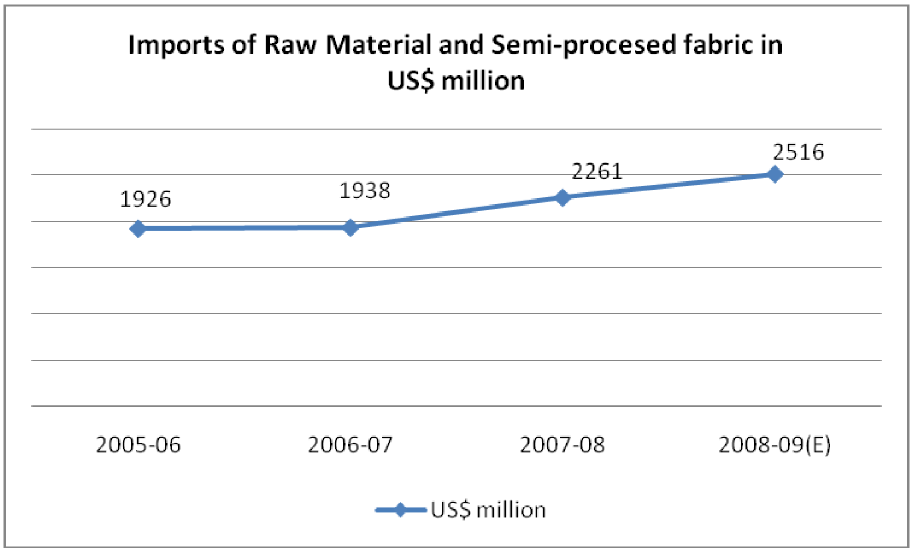
Imports – Raw, Yarn and Fabric (by Value- US$ million)

HS Code	Description	US $ million			
		2005-06	2006-07	2007-08	2008-09 (Apr-Dec 2009)
50	Silk- Raw, Yarn and Woven Fabric	398.06	350.20	393.57	286.44
51	Wool- Raw, Yarn and Woven Fabric	265.50	281.86	331.55	242.68
52	Cotton- Raw, Yarn and Woven Fabric	438.09	464.75	545.65	552.98
54	Man-Made Filaments.	457.00	443.95	489.49	404.26
55	Man-Made Staple Fibres	180.66	208.02	260.76	216.78
58	Special Woven Fabrics; Tufted Textile Fabrics; Lace; Tapestries; Trimmings; Embroidery	85.98	88.36	**97.79**	**74.72**

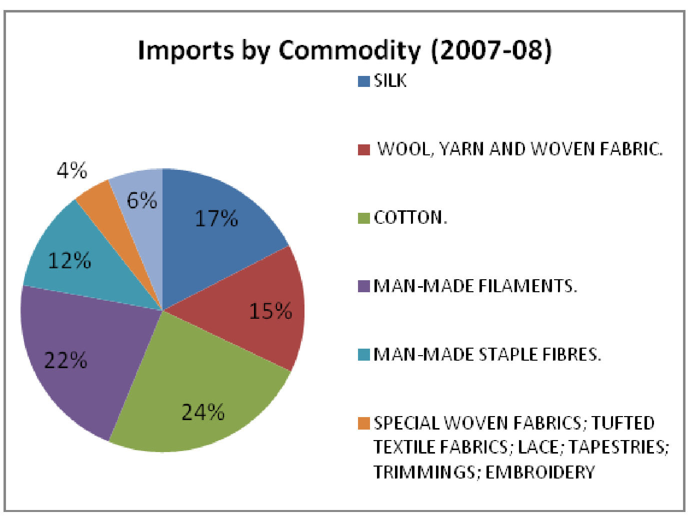
60	Knitted Or Crocheted Fabrics	100.43	100.68	141.71	108.77
	Total	**1925.72**	**1937.82**	**2260.52**	**1886.63**

Source: Directorate General of Foreign Trade

The imports are increasing on a year to year basis; bit the rate of growth of imports has increased in the past two years. The average growth rate in this time was about 15%. This growth rate is fuelled by the increased imports of cotton – raw, yarn and fabric; man-made filaments and staple fibres; and knitted and crocheted fabrics in the given time period. The growth rate of other yarns and fabrics of wool and silk have kind of stagnated in the recent years.

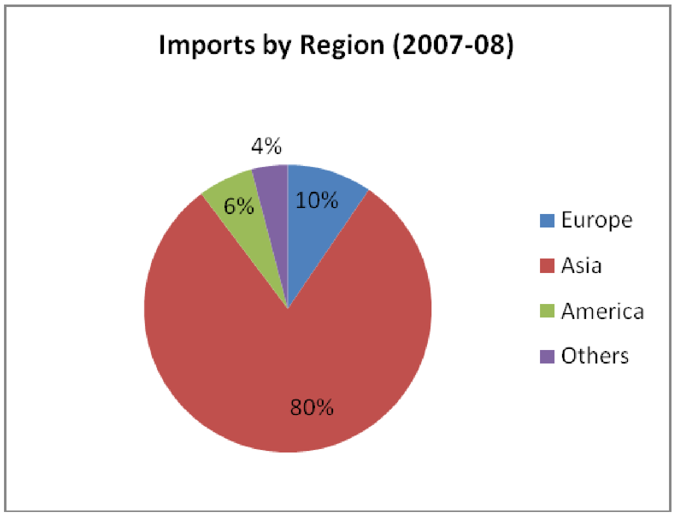


Import of cotton in various forms – raw, yarn and fabric – constitute the largest share in imports (24%), followed by man-made filaments (22%).



Asian countries are the biggest suppliers of raw material and semi-processed fabrics related to textiles sector in India. Their share is as much as 80% of all imports. The major Asian countries which supply raw material, yarn and fabric to India are China, Korea, Japan, Hongkong, Taiwan, Thailand, Vietnam, Malaysia, and Pakistan and Bangladesh.

Europe's share in the imports is about 10%. Among the European countries, important are UK, Germany, France, Italy, Belgium, Turkey, and Spain. The share of North America, South America and Other counties is about 10% of total.



5. Structure of Foreign Trade

5.1 Import Scenario

- Apparel products are Imported in to / exported from India under the following categories:

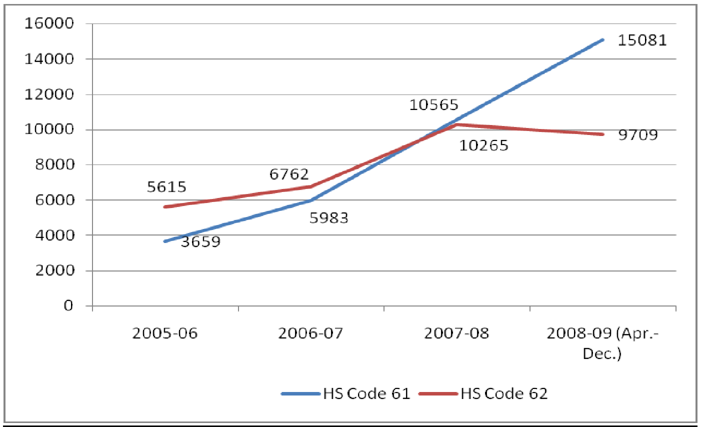
HS CODE	DESCRIPTION
61	**ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CORCHETED.**
62	**ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, NOT KNITTED OR CROCHETED.**

- Consistent and steady growth in imports in the past 3 years.
- Product code 62 constitutes major share of imports.
- Import trend of product code 62 volume has been growing at a CAGR of 20%
- The product code 61 by volume represents lesser share of imports but it has been growing at a CAGR of whopping 60.3% - unprecedented growth trend.
- Import of product code 62 by value has been growing at a CAGR of 10% while that of product code 61 by a moderately higher 13% per year.

Import Trend of Apparels into India - Volume '000 units.

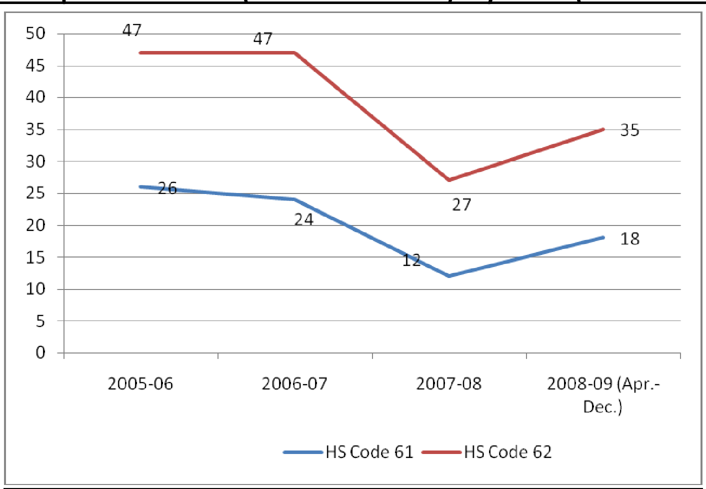
CATEGORY	2005-06	2006-07	2007-08	2008-09 (Apr-Dec)
HS CODE : 61	3659	5983	10565	15081
HS CODE : 62	5615	6762	10265	9709
Total	**9274**	**12745**	**20830**	**24789**

Total Import In To India (HS Code: 61 & 62) : By Volume ('000 units)



CAGR: HS CODE: 61 = 60.3%, HS CODE: 62 = 20.0%

Total Import In To India (HS Code: 61 & 62): By Value (million Euros)



CAGR: HS CODE: 61 = 13.0%, HS CODE: 62 = 10.3%

5.2Export Scenario

India's apparel exports in 2006-07 were of the order of EURO 6.1 billion, accounting for about 46% of total textile exports from India. Indian apparel exports grew by of 11.7% per year in the past 4 years, comprising of garments of all hues made of cotton, man-made fiber, silk, wool, Jute and other textile materials. The exports from India are to more than 100 countries, with EU being the largest single market accounting for about 43% of India's apparel exports, while USA is the single largest buyer (33%) country for Indian apparels. Middle–east constituted 8% and Rest of the World 16% of India's exports.

As per the latest figures available with the Ministry of Textiles, India exported textiles worth US$ 15.27 billion during April-December, 2008. Exports declined by about 2% in 2008-09 billion due to slump in demand from global economies like the EU and the US.

The past two decades have witnessed a significant growth in India's exports of clothing. The elimination of quotas on clothing had a positive impact on India's exports to the countries like US, EU and Canada. The consumers in these countries were largely benefited because of increased competition and decline in prices.

Regarding regional suppliers, Asian exporters as a group, have gained market share in the US and EU both from ATC abolition and with it the weakening of preferences to non-Asian suppliers. However, individual country effects have varied. Quota abolition has also allowed significant expansion of production and exports of textiles and clothing in Asia particularly more for China and much less for India.

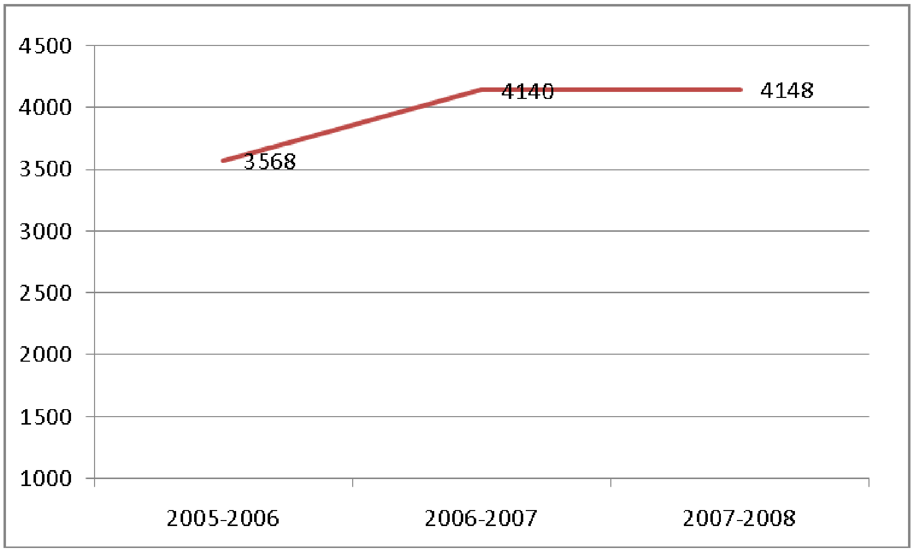
Export to US Market

- Over the past few years, there has been a shift in US imports from Central American and South American countries towards lower-priced Asian suppliers – primarily China but also India, Indonesia, Bangladesh, Vietnam and Cambodia.
- India's exports growth to US during 2005- 07 has been driven primarily by cotton products. In contrast exports of MMF products increased significantly in 2005 but declined in 2006 and further more sharply in 2007. MMF product exports in particular were affected by the continuing rupee appreciation which reduced India's competitiveness.
- The slowdown in US imports of textile and clothing that developed from mid-2007 has contributed to decline during 2008. During 10-month period of 2008, (January –October), US imports of textile and clothing declined sharply. Monthly import trends indicate slowdown in US imports from mid-2007 primarily because of a slowdown in the US economy and consequent slow down in personal consumption expenditure. The decline has been primarily attributed to sharp decline in US retail sales of clothing and clothing accessories.

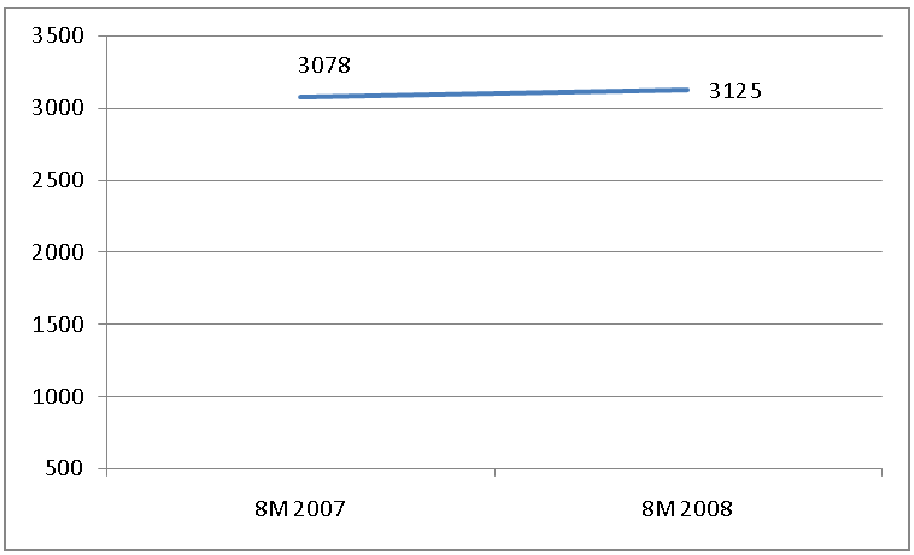
Exports to EU Market

- Overall India has been one of the successful performers among competitive Asian exporters other than China and Vietnam in increasing the market share steadily during 2004- 07.
- Imports of textile & clothing during 2008 have shown signs of decline. During 8 months of 2008,while EU's textile imports declined by 7.8% year –on –year basis (YOY) to Euro 36.87 billion, clothing Imports fell by 1.4%(YOY) to Euro 74.56 billion. Some countries, notably China, India and Bangladesh have managed to increase their market share because of surge in shipments of knit clothing after quotas were removed from January, 2008.

India's Clothing Export to EU: by Value



Clothing Export of Indian to EU for 8 Months During 2008: By Value



Indian Exports to Italy

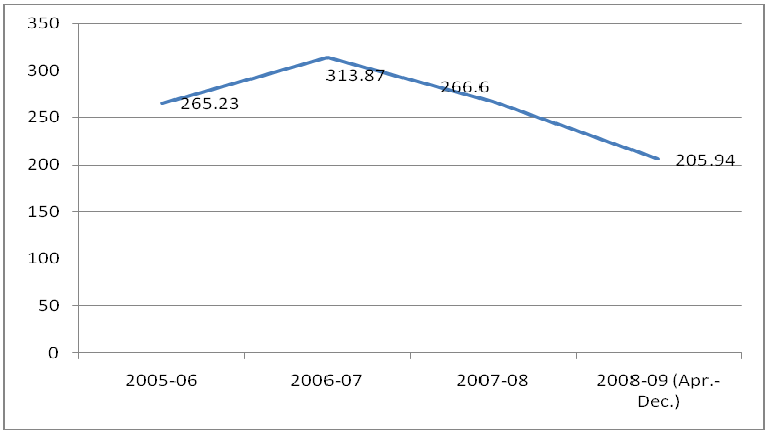
India's export to Italy is marked by fluctuating trend.

Indian Export to Italy: by Value (Euro million)

HS CODE	2005-06	2006-07	2007-08	2008-09 (Apr.-Dec.)
HS CODE : 61	122.10	168.78	155.19	**121.96**

HS CODE : 62	143.13	145.09	111.41	**83.98**
TOTAL	**265.23**	**313.87**	**266.60**	**205.94**

Indian Export to Italy: by Value (million Euros)



CAGR : 0.26%

6. Competition

6.1 Characteristics

The market is characterized by:

- *Branding and sub-branding*
- *Offering variety: current trend and variety*
- *Quality standards—in material, stitching and cuts*
- *Moving up the value chain- ensuring better returns.*
- *Export market: sticking to delivery schedules, conforming to quality and Quantity commitment, ability to interpret fashion changes.*
- *Highly dynamic market- design changing frequently.*

6.2 Product Range, Brand and Category

Category	Range	Some Brands
Formal Wear	Suits, Trousers, Shirts, Jackets Blazers, Neckties……	**Allen Solly, Arrow, Cambridge, Colour Plus, Louis Philippe, Peter England, Park Avenue, Reid & Taylor, San Frisco, Van Heusen**
Casual Wear	Shirts, Trousers, Jeans, Tee Shirts Shorts	**Lee, Flying Machines, Parx, Weekender, Wear-house, Benetton**
Kids wear	Shirts, Shorts, Frocks, Skirts, Jeans….	**Lee, Ruf 'n' Tuf, Wear-house, Weekender**
Ladies Wear	Skirts, Tops, Salwar Kameez , Sarees	**Nike, Reebok, Vogue, Levi Strauss, Lee, Freelook, Black Berry, etc.**

Market Highlights

Despite substantial growth, Indian clothing market is still in the early developmental phase. Despite presence of foreign players, domestic players are not much scared of any competition from outside. The main impediment to the organized players is the presence of huge unorganized sector. In a move to compete, organized players have started their own strategy of standardizing the products Indian 'women's wear' market is largely influenced by international fashion trend. International companies sell their apparels to retailers owned by international companies or retail through local franchisees.

Several fabric manufacturers have now started venturing in to garment production. Major fabric company Siyaram is a precursor to this trend in India. Madura Garments have entered the apparel market with successful brands like Van Heusen, Allen Solly, Peter England and Louis Philippe. Textile leader, Bombay Dyeing also tied up with Proline to enter the sportswear segment, as well as adding Vivaldi range to its formal menswear. The brand has been targeted towards the young group, offering a wide range of style with perfect fitting.

Another strategy major textile players are adopting is 'acquisition'. Raymond's acquired Colorplus to jump in casual-wear, adding brands like Raymond's, Parx and Park Avenue. Using a similar strategy, Indian Rayon acquired garments division of Madura Coats.
Licensing has also been established as a major business strategy. A number of domestic Indian brands have become licensees of popular international brands such as Disney, Barbie and Powerful Girls to market both garments and other products under these brands.

Traditional tailor-made garment is continually being relegated in to the background. More and more working women look for 'ready to wear' dresses. Attitude towards casual wear at the work place is gradually transforming. Some companies ask their employees to come to office in casual dress for some days in a week /month. The liberalization of casual wear at the work place is also driving growth in the share of women's share in total apparel retailing.

Men's and women's wear were traditional established market segments. Kids' wear retailing was an offshoot of men's and women's apparel. The growing importance of the opinion of children has propped up demand for kids' wear brands. With increasing affluence of lesser number of children per urban couple, urban couples now are not only spending more on their children but are also seeking quality products, including branded goods for children as well.

6.3 Main Competitors - Market Shares

The market is vast and expanding. Only a few manufacturers have significant market presence.

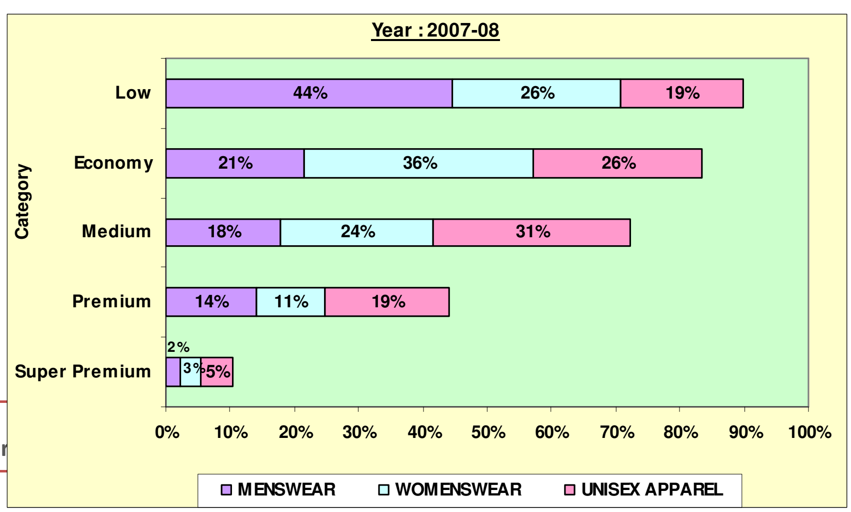
Market Shares of Leading Players (%)

Manufacturer	2005-06	2006-07	2007-08
Pantaloon Retail (India)	7.25	9.90	14.64
Gokaldas Exports	9.84	8.72	7.28
Arvind	2.07	5.29	5.97
Aditya Birla Nuvo	7.07	6.05	5.96
Orient Craft	7.72	6.06	5.06
Vishal Retail	2.35	3.32	4.52
Bombay Rayon Fashions	0.55	1.71	2.88

Koutons Retail India	1.82	3.51	2.79
Raymond Apparel	2.32	2.23	2.69
Celebrity Fashions	1.81	2.80	2.28
Rupa & Co.	2.98	2.56	2.14
Indus League Clothing	0.74	0.84	2.14
Pearl Global	1.72	1.53	2.08
SPL Industries (Shivalik Prints)	2.65	1.83	1.88
Lux Industries	2.06	1.44	1.65
Zodiac Clothing Co.	1.88	1.75	1.64
Madura Garments Exports	0.29	1.20	1.51
Page Industries	1.16	1.19	1.40
S E L Manufacturing Co.	1.04	1.18	1.37
Kitex Garments	1.22	1.33	1.28
S Kumar's Nationwide	0.34	1.09	1.18
Venus Garments (India)	0.93	1.36	1.16
Kewal Kiran Clothing	0.98	1.16	1.15
Maxwell Industries	1.67	1.30	1.12
Colorplus Fashions	1.17	1.06	1.12
Loyal Textile Mills	1.47	1.08	1.05
K P R Mill		1.13	1.02
Nahar Spinning Mills	2.15	1.57	0.94
Provogue (India)	1.04	1.21	0.91
Oswal Woolen Mills	0.88	0.78	0.75
Other	30.83	23.82	18.44
Total	**100**	**100**	**100**

6.4 Competition by Segment

The premium and super-premium segments of the industry are gaining, following a consumer shift from economy and mid-market segments to the premium segment, while the low and economy segment is gaining from the industry becoming more organized.



6.5 SWOT Analysis

Strengths	Weaknesses	Threats/ Concerns	Opportunities
• Assured raw material base – abundant supply of cotton and man-made fiber. • Well-established production infrastructure and production base. • Large pool of skilled and cheap work force, adding to the competitive edge of the industry in the International arena. • Excellent design capability of Indian designers. • A paradigm shift from commodity-based trading to high value-added fashion garments. • Vertical integration & horizontal consolidation of production process leading to lowering of manufacturing • Production flexibility of the manufacturers contributes to improvement in productivity. • An expanding and lucrative market	• Highly fragmented industry. Informal sector accounts for larger part of manufacturing base. • Critically dependent upon cotton. Raw cotton prices are highly fluctuating in India and impact the manufacturing industry adversely. • Superior varieties of cotton fabrics are regularly imported in to India for premium quality garments. • Technological obsolescence adversely affects major part of the organized sector in terms of productivity and in the entire value chain. • Infrastructural bottlenecks such as loss of transportation time & transaction time at ports, land borders adversely affecting the competitiveness of exporters. • Imports of cheap textiles from other Asian neighbors such as China, Bangladesh etc are eroding the	• Rupee fluctuations with respect to US $ and Euro affects the volume and value of exports as the price competitiveness of Indian exports. • Rising ecological & social awareness among the consumers in the west may impact sourcing from India. The western countries conform to certain guidelines of ILO in regard to certain sensitive Issues such as deployment of child labor, unhealthy working environment of labor etc when it comes to sourcing of products. • Domestic industry facing increasing competition from low cost countries is likely move towards consolidation of local players. • Regional trade blocks play a significant role in the global trade with member countries enjoying lower tariffs. Export prospects of India, not being a member of regional trade block, may be adversely jeopardized.	• Tremendous boom in retailing as a result of change in consumption pattern and private incomes. Changing life style has led to dramatic shifts in the buying pattern in favor of 'ready to wear'. Several large foreign players have been retailing branded products in India for years. • Elimination of Quota Restriction, according to FICCI research, has helped India expand its global market further since 2005. • Indian market is gradually shifting towards branded products. • Indian retailing industry, now at its nascent stage has exploited not more than 15 to 20% of sales potential due to retail boom. • Good prospect for more foreign

Strengths	Weaknesses	Threats/ Concerns	Opportunities
boon to International manufacturers and retailers encouraging them to invest and set-up manufacturing base. • Government support to increasingly diversify and further exports.	competitiveness of domestic manufacturers. • Increase in power tariff, indirect tax and interest rate has contributed to increase in production cost. India is becoming less and less competitive with respect to Asian counterparts escalating over the years. • Lack of standardization and quality control of Indian garments have resulted in large scale rejections of products in the export market.	• The US & EU governments discourage imports from countries that use polluting dyes and environment damaging manufacturing practices. This has resulted in putting pressure on buyers to limit their sourcing from developing countries. • Increased global competition in the post 2005 trade regime under WTO.	investment in view of the increasing market presence of international giants. Government's favorable foreign investment policy is expected to work as a catalyst to garner more direct as well as foreign institutional investment.

6.6 Growth Prospects

- Tremendous boom in retailing is expected to cause a significant change in the consumption patterns of private incomes. The growth will result in qualitative shifts in domestic buying patterns and life styles of consumers in India. Changing life style has also led to a rapid increase in the 'ready –to-wear' market'. Several foreign players have been retailing branded apparels in India for a number of years.
- Indian textile industry has attracted increasing foreign investment over the years. FDI has more than quadrupled from US$ 43 billion in 2003-04 to US$ 19.5 billion in 2006-07. Inflow of foreign investment has inspired other international players to start more production ventures.
- Growth trend of the industry has been aided and sustained by the strong services sector. The country's performance on the macro-economic parameters has been impressive in the past 4 years. Despite temporary setback in the past few months, the economy is back on the road to recovery. The adverse impact of western financial melt-down on the domestic industry has not been acutely felt. Indian export sector, however, continues to reel under depression. Its impact is much less perceived in India than majority of exporting countries to the west.

7. Potential for European Companies in India

Apparel manufacturing activities in the European Union have been tapering off for some time due to escalating costs of labor and other key inputs, as well as hardening of currency. The situation has further intensified in the years post WTO. Dismantling of the quota regime has further sharpened global competition in the apparel industry. Many manufacturers have been forced to close down their manufacturing plants. The apparel industry in EU has witnessed major decline in production, export and employment. Some of the manufacturers have started relocating their plants to remain in business.

The abolition of quota has radically transformed the center of gravity of global apparel manufacturing activities from the developed to the developing countries. India has of late emerged as a major force to reckon with.

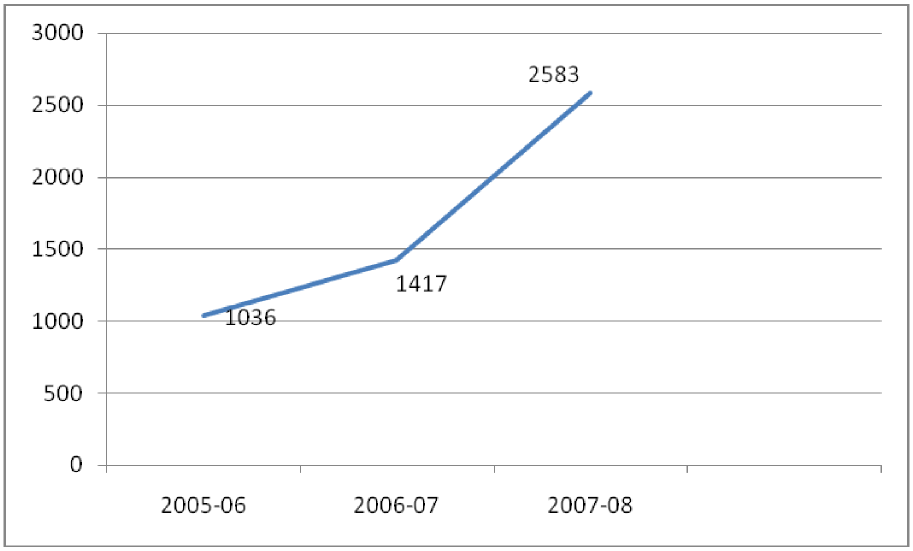
7.1 Volumes and changes in the market for European textile clothing and Apparel

European Union has a traditional bilateral trade relationship with India for many decades. Many multinational corporations have been operating from India. EU textile and apparel companies have considerable investments in India. European apparel manufacturing companies in recent years had considerably diverted their exports from the USA to India as a matter of compulsion. Massive imports of apparel in to India from EU had started pouring in the past few years. Since the financial meltdown gripped EU in 2008, EU companies have now started looking at India for relocating their plants and using India's developed textile infrastructure as a base for third country exports.

Growth of Imports from EU

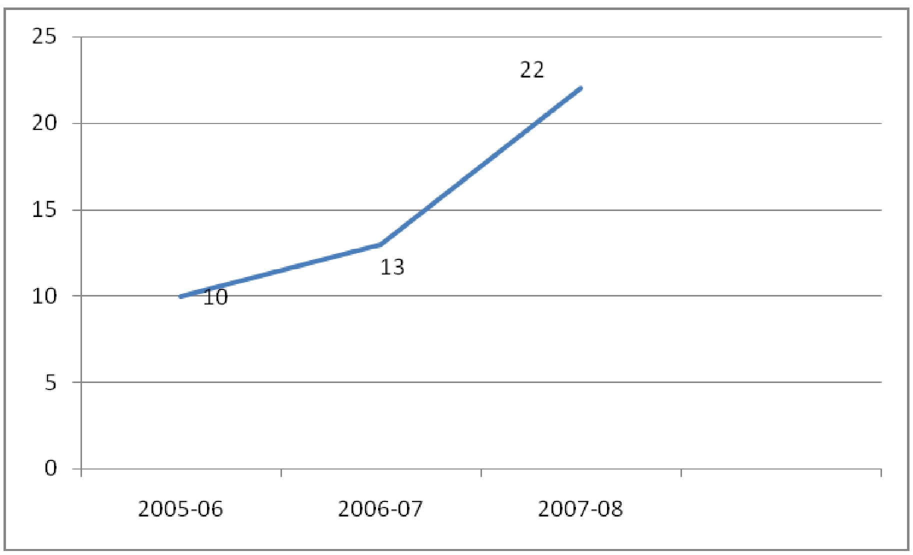
European apparels have been well received in Indian market. This has been corroborated by import data available from the Ministry of Commerce, Government of India. Import of European apparels has registered an appreciable rise from 1.03 million units in 2005-06 to 2.58 million units in 2007-08 at a high CAGR of 58%. Import of European apparels has more than doubled from 10 million Euro in 2005-06 to 22 million Euro at a CAGR of 48% within a short span of 3 Years. For European apparel manufacturers, Indian market works as a savior since their own market is saddled with deep depression and products do not sell. US market does not offer any short or medium term safeguard for the same reason.

Import Scenario: Apparel Imports from EU – by Volume ('000 units)



CAGR: 58%

Import Scenario: Apparel Imports from EU – by Value (million Euros)

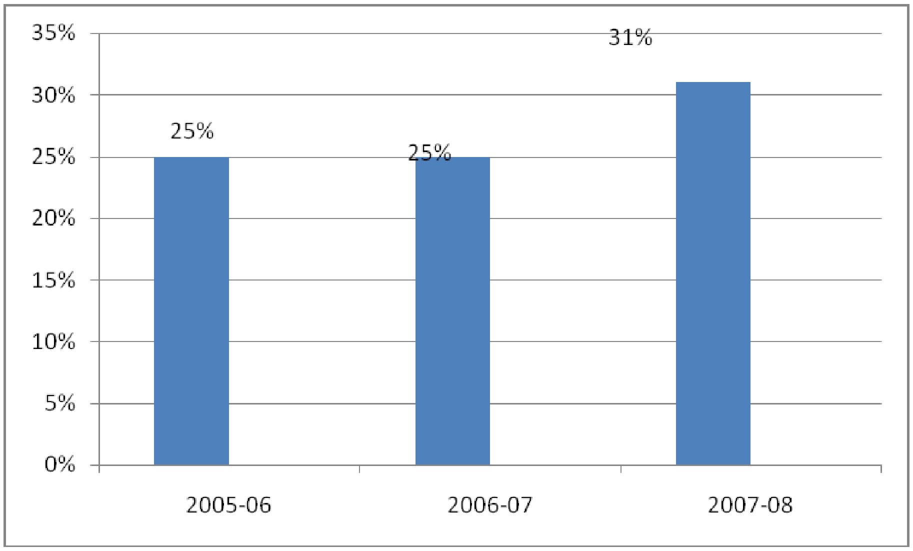


CAGR: 48%

Share of Imports

- Apparel import from EU comprises of medium and premium quality products.
- Import accounts for about 11 to 12% by volume of total apparel imports and this percentage has remained at this level in the past 3 years.
- Unit value realization of EU import of apparel has been on the higher side because of its superior quality. EU import constituted about 25% of total apparel imports by value in 2005-06. Its share increased further to 30% in 2007-08. The trend seems to suggest that the quality of Indian consumers is also improving and its base increasing.

EU Share of Import of Apparels: By Value



Indian tastes, preferences and aptitudes are going through a process of qualitative transformation. People in the upper income strata have become increasingly fashion conscious. Like their counterparts in the developed world, rich urban households spend fabulously and dress well. This observation may be substantiated from the import data which suggests steep rise in the import trend of apparels from Italy.

Import of apparels has shown a consistent rising trend from 0.22 million units in 2005-06 to 0.39 million units in 2006-07 and further to 0.49 million units in 2007-08 at a CAGR of 47%. Import trend of apparels by value has also pointed to a rising trend. Import has escalated marginally from Euro 4 million in 2005-06 to marginally high Euro 5 million in 2006-07 and then shot up to a high of Euro 8 million in 2007-08.

7.2 Main European producers present in India

Several European players belong to multinational corporations and have been operating in India as JV partners or operate in India on the basis of franchisee or licensing arrangements:

Major players include:

- Benetton
- Adidas

- Puma
- Zara
- Oxford
- Esprit
- Dewitte
- Marzotton
- John Player
- Mango

Company	Brands	Entry Strategy	Current operating Structure	History
Benetton	United Colors of Benetton, Sisley	Licensed UCB	Subsidiary	Entered in India through a licensee(Dalmia), then transitioned in 91-92 to a 50:50 JV with DCM for product distribution & franchising; formed subsidiary in 2004; Sisley launched by trent under a franchise agreement
Adidas	Adidas	JV(Majority)		
Puma AG	Puma	Licensed	Subsidiary	Earlier licensing agreement with planet sports in 2002 which ended in 2005
Esprit	Esprit			Exclusive distribution, marketing & retailing rights with Madura garments
Mango	Mango	Franchisee/ distribution		

Product positioning

European apparels are positioned in the premium and super-premium segments. The products are targeted to the affluent sections of Indian population especially towards the younger generation, for whom overall quality is the main focus. Besides, the quality of fabric, color combination, design, style, fashion, fitness and cuts are all important considerations..
Italian products are considered the most fashionable and prices charged are one of the highest.

Recent Foreign Collaborations

Several Indian textile companies have formed alliances with their global counterparts, particularly those with strong front-end capabilities, in a bid to access global markets, tap technological know-how, design skills and branding and retailing ability. The alliances have been struck in most cases by way of JVs or stake acquisition. Tie-up with overseas companies help them move up the value chain and focus on the more lucrative branding and retailing business.

Leading Collaborations in Indian Apparel Industry

Indian company	Overseas entity	Profile of overseas entity	Nature of alliance

Raymond	UCO NV, Belgium	Market leader in high-end denim in Europe	JV (50:50)
	Gruppo Zambaiti, Italy	Amongst Italy's top 3 high fashion cotton textile companies	JV (50:50)
	Lanificio Fedora, Italy	Largest producer of carded woolen fabrics in the world	JV (50:50)
Arvind Mills	VF Corporation	VF Corp owns popular denim and apparel brands including	JV (40% stake of Arvind)
		Lee, Wrangler, Vanity Fair, Nautica, JanSports and Kipling	
Welspun India	Christy, UK	UK's largest towel brand	Acquisition (85% stake)
Alok Industries	Teviz, Portugal	Manufacturer of high end shirting fabric	JV

7.3 Indian buyers / consumers of European products

Consumer Preference for European Products

Earlier majority of purchase decisions were taken by the elder generation in the age-group of above 50. The elderly generation had traditional mind-set. Decisions were guided by 'value for money'. **Now demographic factors have tilted in favor of the younger generations who are empowered to take major purchase decisions. This generation spends well and dresses well. With money power supporting their choices, these classes of consumers have focus on exclusive products in terms of latest trendy fashions and go for branded products.**

While shopping, majority of consumers, however, look for the following attributes:

- Comfort
- Fit
- Aesthetic Designs
- Durability
- Colors
- Price
- Quality

8. Regulatory Framework and Legislations

8.1 Sector specific Regulations

The Ministry of Textiles has taken pro-active role to rejuvenate the textile industry. It is now working more as a facilitator.

Policy Initiatives

- 100 per cent FDI allowed through the automatic route.
- De-reservation of readymade garments, hosiery and knitwear from the small-scale industries (SSI) sector since end-2000.
- The Government is also working on **'Advance Authorization Scheme'** and **'Duty Exemption Pass Book'** to boost export in the textile and apparel sector.

Reform Measures

- Technology Up gradation Fund Scheme (TUFS) which was launched to facilitate the modernization and up gradation of the textiles industry in 1999 has been given further extension till 2011-12.
- The Government of India has introduced a package of measures to help the organized sector mills to restructure and lessen their accumulated debts. The Ministry of Textiles has taken the measure to issue 'letter of comfort' that would enable the mills to obtain loans from banks and financial institutions. The Government has made further investment of Euro 7.8 million towards purchase of improved machinery and Euro 0.06 billion as adjustment assistance to reduce labor surplus.
- The Government has formulated 'Handloom Reservation Order' to revamp the sector. The Order specifies that 11 textile products must be manufactured by the handloom industry.
- The Cotton Corporation India (CCI) constantly monitors the price movement of raw cotton. It extends price support as and when the price falls below 'Minimum Price Support'. The Government reimburses CCI for any losses incurred.
- In current times of a global meltdown, the government has come out with an economic stimulus package for the textile industry. This includes (i) Additional allocation of Euro 201.6 million to clear the entire backlog in the TUF Scheme, which would enhance cash flow of the exporters. (2) Extension of interest rate subvention of 2 per cent on pre and post shipment credit (3) Additional fund of Euro 158.4 million for refund of terminal excise duty.
- The Government also proposes 'Integrated Textile Parts Scheme, 2005 which combines 'Apparel Park of Export Scheme' and the 'Textile Centre Infrastructure Scheme' to promote textile clusters and infrastructure facilities.

Tariff Concession

- On the import front, the Government of India has reduced tariffs on textile machinery & equipment. It has identified 287 textile machinery items which will have a basic custom duty of 5%.

Export Fiscal Incentives and Concessions

India offers an attractive scheme of incentives on exports, especially through its Export Oriented Unit (EOU) Schemes. By definition, export oriented units are required to export all their production (less rejects and wastage), attaining a minimum specified level of net foreign exchange earnings from their operations.

The most important provisions concerning EOUs are as follows:

- All capital goods, raw materials and consumables are allowed to be imported **free of duties,** and all locally procured supplies are exempt from sales tax and excise duties
- Sales in the domestic market attract a **lower customs duty:** that is **half the normal tariffs** applying to imports.
- Profits of an export oriented unit are fully exempt from income tax until April 2010, including profits on domestic sales upto 25% of the production.

Environmental Clearances

Entrepreneurs are required to obtain Statutory clearances, relating to Pollution Control and Environment as necessary, for setting up an industrial project for 31 categories of industries in terms of Notification S.O. 60(E) dated 27.1.94 as amended from time to time, issued by the Ministry of Environment and Forests under The Environment (Protection) Act 1986.

Setting up industries in certain locations considered ecologically fragile (e.g. hill areas) are guided by separate guidelines issues by the Ministry of Environment and Forests.

8.2 Foreign Direct Investment (FDI) Policy

The essential provisions of foreign investment related approvals/ procedures and options for business structure are summarized below. For more details please refer the Government of India's official website http://dipp.nic.in/.

- In most sectors/activities, foreign direct investment up to 100% is allowed through the automatic route, subject to sector rules / regulations as applicable.

- Foreign investment in any small-scale undertaking requires prior approval of the Government of India and is not automatic. Investment in any small scale enterprise (SSI unit[1]) by non-SSI undertakings, other SSI undertakings and even foreign investors, is restricted to 24% of the equity.
- All foreign investments are ***fully repatriable*** for both profit as well as principal values, subject to payment of applicable Indian taxes and obtaining due clearances from the Reserve Bank of India.
- Foreign investment is prohibited in
  - Retail Trade (except Single Brand product retailing, for which 51% FDI is permitted);
  - Lottery business;
  - Gambling and betting; and
  - Atomic Energy
- All Activities/ Sectors require prior Government approval for FDI in the following circumstances:
  - Where applications are from entities already having an existing previous joint venture/technology transfer/royalty agreement in the same field in India;
  - Where more than 24% foreign equity is proposed for manufacture of items reserved for the Small Scale sector.
- Franchising
  Govt. of India is reviewing the policy on franchisee arrangements between Indian companies and overseas partners. Numerous international brands are present in India through the franchise route and more are also expected soon. However, the review of this policy with a view to prevent foreign retail companies entering the Indian market through franchisee route circumventing the FDI restrictions, has resulted in several ventures being put on hold or being modified, the most high profile example being that of Walmart's entry into through a joint venture with Bharti group.

- Foreign Technology Agreements
  Foreign technology agreements are allowed in all industrial sectors. The approval is automatic for agreements involving Lump sum fee not exceeding US $ 2 million, and royalties up to 5% on domestic sales and up to 10% on export sales.

  For agreements where no technology transfer is envisaged, payment of marketing royalties- for use of brand name/ licence- up to 1% of sales is also allowed under the automatic route.

- Hiring of Foreign Technicians
  No prior approval is necessary for engaging foreign technicians / experts on short-term basis, subject to guidelines relating to duration of engagement (max 12 man-months in a calendar year) and fee rates (not exceeding US$ 1000 per day, subject to a ceiling of US$ 200,000 in a calendar year).

8.3 Business Structure Options

[1] Small Scale industrial unit – defined as one where investment in plant & machinery is less than Rs. 5 million

A foreign company can set up operations in India by **incorporating a company** under the Companies Act, 1956, through setting up a private or a public company with limited liability, which can be either Joint Ventures; or Wholly Owned Subsidiaries. A private limited structure gives the most flexibility and involves fewer statutory requirements.

For registration and incorporation, an application has to be filed with Registrar of Companies (ROC). Once a company has been duly registered and incorporated as an Indian company, it is subject to Indian laws and regulations as applicable to other domestic Indian companies.

Foreign Companies can also set up their offices through **unincorporated entities**, which can undertake only the permitted business activities, namely

- **Liaison Office/Representative Office** acts as a channel of communication between the foreign company and the entities in India and collection of information about possible market opportunities. Liaison office can not undertake any commercial activity directly or indirectly and cannot, therefore, earn any income in India.
- **Project Office** is a temporary office in India for executing specific projects. Such offices can not undertake or carry on any activity other than the activity relating to execution of the project.
- **Branch Office** is allowed for trading, professional or consultancy services, research, promoting collaborations with Indian companies, representation as buying/selling agents in India etc. A branch office is not allowed to carry out manufacturing but is permitted to subcontract these to an Indian manufacturer.
-

Illustrative Business Costs

	Euros	Basis
Incorporation Costs	5000 - 6000	One time
Office rentals	250 to 300 per sq m per month	6 months advance (Interest free deposit) 3 year lease
Interiors	250 – 300 per sq m	
Work spaces	300 - 400 per seat	
Residential Apartment rentals	50 per sq m per month unfurnished, bare walls	6 months advance (Interest free deposit) 3 year lease
Industrial land	30 - 60 per sq m	Buy / 33 yr lease
Staff, junior management salary	150 - 500 per month	add 25% benefits
Middle management	1000 – 2500 per month	Performance based
Top management	3000 +/ month	Performance based
Vehicle lease (Toyota Corolla)	450 per month	15% advance 5 year lease

8.4 Practical aspects of doing Business in India

As per a World Bank study, covering 181 economies, India's ranking has improved marginally in 2009, on various indicators of attractiveness as a business destination. However, in absolute terms the ranking remains quite low. Significantly, India is ranked a respectable 33 on the parameter of protecting the interest of the investors.

Ease of…… in INDIA.	2008 Rank	2009 Rank	Change in Rank
Doing business	122	120	-2
Starting a business	121	114	-7
Dealing with construction permits	136	131	-5
Employing workers	89	89	0
Registering property	105	114	9
Getting credit	28	25	-3
Protecting investors	38	33	-5
Paying taxes	169	167	-2
Trading across borders	90	81	-9
Enforcing contracts	180	180	0
Closing a business	140	140	0

However, Italian companies planning to enter Indian market need to consider carefully the 'need' for a local partner. In most activities, the government regulations allow a 100% foreign ownership. Therefore a Country Manager may serve the purpose instead of having an Indian investor partner.

However, if a local partner is preferred, a due diligence review must be carried out, before finalizing the tie-up.

Foreign entities can build in sufficient safeguards to protect their legitimate business interests in joint ventures. Some important issues arising in management control of joint ventures are explained below:

- All verbal understandings must be formalized in writing, even for confidential agreements.
- Ensure a provision for right to exit from a contract and clear procedures and triggers for termination and dispute resolution
- All intellectual property must remain the exclusive domain of the originator and only licensed to the joint venture / local agent.

8.5 Investing in Existing India Companies

Foreign companies planning to invest in existing Indian companies can do so under the general permission of RBI under Foreign Exchange Management Act (FEMA). The companies are required to notify the concerned Regional Office of the Reserve Bank of India (RBI) within 30 days of remittances, and within 30 days of issue of shares to the foreign investors.

Indian companies having foreign investment approval through FIPB route do not require any further clearance from RBI for receiving inward remittance and issue of shares to the foreign investors.

8.6 Taxes and Tariffs

Taxes & Tariffs	
Tax on Business Income	34%
Capital Gains Tax	10.5% - 34%
Dividend Tax	14.4%
Minimum Alternate Tax	11.5%
Withholding Taxes (On knowhow, royalty …)	21%
Service Tax	10.3%
Import duty (average) **	24.42%
Excise Duty	8%
Sales Tax / VAT (this is a turnover tax applying on sales, and varies state to state)	4 - 12.5%

** For some cotton articles only basic import duty is charged at a fixed rate of 10%. In some cases, the import tariff is charged as a fixed amount per piece rather than as a %age of CIF value. For example Men's Shirt's, Knitted or Crocheted of silk – carries a basic duty of 10% or Rs 90 per piece, whichever is higher.

8.7 Protection of Intellectual Property (trademarks, patents, etc.)

In the past, India's intellectual property rights regime was a cause for concern to several international investors, marked by infringements of international trademarks and patents under India's domestic laws on these subjects. However, there is now a well-established statutory, administrative and judicial framework to safeguard intellectual property rights in India, whether they relate to patents, trademarks, copyright or industrial designs.

Well-known international trademarks are protected in India even when they are not registered in India. The Indian Trademarks Law has been extended through court decisions to service marks in addition to trade marks for goods.

- **Indian Patents Act, 1970 / 2002 / 2004**

The Indian Patents Act, 1970, contains the law governing patents. The Act has been amended by the Patents Act, 2002 to meet with the second set of obligations (Term of Patent etc.). This amendment, which provides for 20 years term for the patent, Reversal of burden of proof etc. came into force on 20th May, 2003. The Third Amendment of the Patents Act 1970, by way of the Patents (Amendment) Ordinance 2004 came into force on 1st January, 2005 incorporating the provisions for granting product patent in all fields of Technology including chemicals, food, drugs & agrochemicals and this Ordinance is replaced by the Patents (Amendment) Act 2005 which is in force now having effect from 1-1-2005 .

Once the patent application is filed, it goes through a process of scrutiny and publication (made open for public inspection). Any person can file an opposition to grant of patent after the application has been published and within a period twelve months after the grant of a patent. If the application satisfies all the requirements of the Patent Act, the patent is granted, and published in the official gazette. Every granted patent is valid throughout India, and gives the patent holder the exclusive right to make, use, sell, offer for sale and import the product or use the process. However, the government can make use of the patent for its own purposes or for distributing an invention relating to medicine to hospitals and dispensaries. Furthermore, any person can make use of the patent for experiment or education.

A patent holder may assign the whole or any part of the patent rights for the whole of India or any part thereof. A patent holder may also, by a license, permit others to make, use, or exercise, the invention which otherwise would not be allowed.

Infringement of a patent is the violation of the exclusive rights of the patentee. Determination of infringement depends on the scope of exclusive rights of the patentee, whether the infringer’s acts amount to making, using, selling or distributing a product or using a method and if in fact the acts amount to an infringement. The burden of proof is on the patent owner for proving infringement.

- **Trade Mark Act**

Trade Marks Act, 1999 seeks to provide for the registration of trademarks relating to goods and services in India. The rights granted under the Act, are operative in the whole of India. The term of a trademark registration is for a period of ten years but may be renewed from time to time in the prescribed manner and on payment of the prescribed fee. A common ground for refusal is likelihood of confusion between the applicant's mark with registered mark or pending prior mark.

- **Design Act**

The essential purpose of design law is to promote and protect the design element of industrial production. The existing legislation on industrial designs in India is contained in the New Designs Act, aligned with the changed technical and commercial scenario and made to conform to international trends in design administration.
The registration of a design confers on its proprietor, copyright in the design for 10 years from the date of registration, extendable for another five years. However, it must be stated here that inspite of the well established legal framework for protection of intellectual property in India, the implementation and enforcement of these provisions still need substantial improvement.

9. Marketing and Distribution Structure

9.1 Trade channels

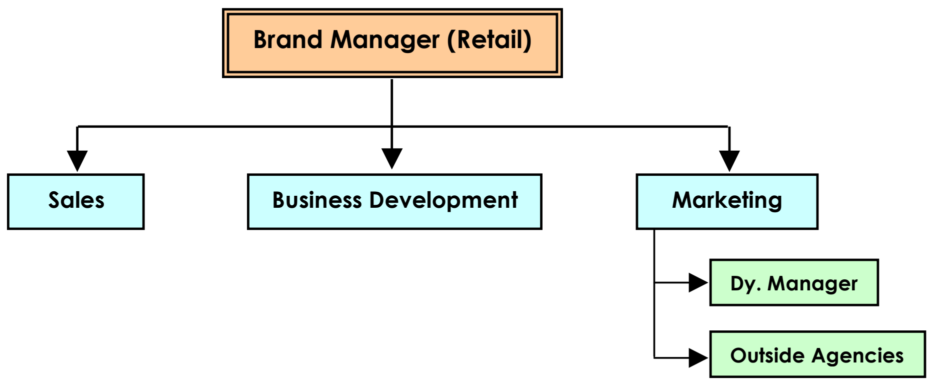
There is a commonality of approach adopted by manufacturers / importers for marketing their wares. Large manufacturers maintain an exhaustive marketing set-up at an all India level to reach maximum geographical spread and service customer requirements through various mechanisms.

Major functions of the marketing department include:

- Organizing sales promotion measures through interface with potential / existing customers
- Production of company literature, brochures, related ad materials
- Organizing marketing campaign – domestic & overseas market
- Appointment of dealership net-work & servicing the requirements of distribution network.

Structure of Marketing Department

The structure of marketing department varies with size and scale of operations, as well as the product range of individual companies. There is no uniform hierarchy in the marketing department. However the typical commonly used structure is as under:



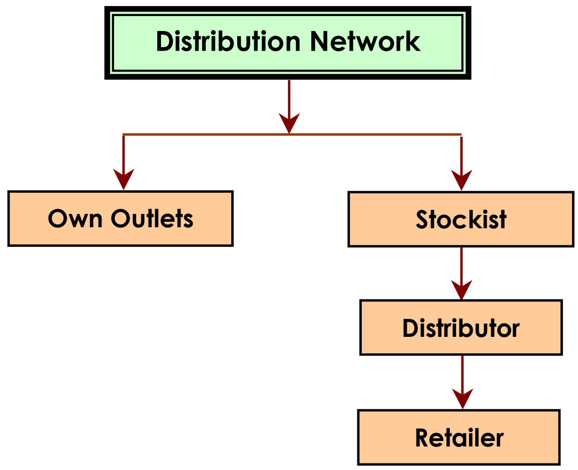
Sales Network

The products are mostly sold through a variety of cannels. These include

- Sales through exclusive company owned retail outlets. One of the major players using this channel as a major route is Arvind Mills Ltd, Color Plus, (Raymond Ltd). Increasing use of retail space in various malls for showcasing products and maximizing sales.
- Outright sales to retailers. Majority of the players are using this channel. Prominent among them are Louis Philippe, Aditya Birla Group.
- Operating through franchisee arrangement. Foreign players without any joint venture collaboration or technology tie-up in India prefer this route. Major advantage of this system is that one need not make substantial investment for popularizing the brand. The main onus for development of the market lies with the franchisees. If the product does not sell well or there is a danger to brand reputation, the franchise agreements are terminated. This is a cost effective measure.

Distribution Network

More than 60% of products in the domestic market are sold through distribution network. Most extensively used and popular network is presented as under:



Major strategy of the manufacturers is creation of widest distribution network for reaching out to maximum customers across the country. In view of the expanding market demand, the manufacturers are streamlining and revamping their distribution net-work across various cities, hitherto untapped.

9.2 Key trends in the Retail sector

Domestic consumption market in India is estimated to grow approximately 7 to 8% with retail accounting for 60% of the overall segment. Of this organized retail is just 5-6%, which is comparatively lower than other countries with emerging economies. In developed countries organized retailing is the established way of selling consumer products. Despite the low percentage, Indian textile industry has grown noticeably in organized retailing of textile products. The negative phase in exports may have compelled the Indian textile retailers to explore the opportunities in the domestic market substantially causing the outstanding growth in the concerned segment. These indications give a positive notion that organized retailing has arrived in the Indian market and is here to stay. It is expected to grow at 25-30 per cent annually and would triple in size from Euro 54.7 billion in 2004-05 to Euro 170.3 billion by 2010.

India is on the radar of the global retailers seeking entry into the Indian retail market. The market is growing at a steady rate and accounts for around 10 percent of the country GDP. The inherent attractiveness of this segment lures retail giants and investments are likely to sky rocket with an estimate of Euro 0.31 – 0.39 billion in the next 2-3 years, and over Euro 3.13 billion by end of 2010. Indian retail market is considered to be the second largest in the world in terms of growth potential.

A vast majority of India's young population favors branded garments. With the influence of electronic media, urban consumer trends have spread across the rural areas also. The shopping spree of the young Indians for clothing, favorable income demographics, increasing population of young people joining the workforce with considerably higher disposable income, has unleashed new possibilities for retail growth even in the rural areas. Thus, 85% of the retail boom which was focused only in the metros has started to infiltrate towards smaller cities and towns. Tier-II cities are already receiving focused attention of retailers and the other smaller towns and even villages are likely to join in the coming years. This is a positive trend, and the contribution of these tier-II cities to total organized retailing sales is expected to grow to 20-25%.

Market Reach of Key Players

Players	Brand	No. of Retail outlets		Retail outlets by city	
		2005-06	**2006-07**	**2005-06**	**2006-07**
Raymond Limited	Raymond Shop	332	380	167	**174**
Kouton's Retail India Ltd.	- Kouton's - Charlie outlaw	206	500	NA	**221**
Pepe	Pepe	58	NA	27	**NA**
Aditya Birla Navo Ltd.	Peter England	21	22	12	**NA**
Arvind Brands Ltd.	Lee	53	71	NA	**71**
Provogue India Ltd.	Provogue	75	100	24	**27**
Madura Garments Ltd.	Allen Solly	24	NA	16	**NA**
Levi Strass India Pvt. Ltd.	Levi's	65	115	NA	**29**
Personality Ltd.	Weekender	50	60	NA	**25**
ITC Group	Wills Life Style	40	55	NA	**30**
Arvind Brands Ltd.	Wrangler	NA	35	NA	**23**
Gini & Jony Pvt. Ltd.	Jini & Jony	29	NA	15	**NA**
TCNS Clothing Pvt. Ltd.	W	28	26	NA	**64**
Madura Garments Ltd.	Van Heusen	22	25	16	**NA**
Span Clothing Pvt. Ltd.	Spankar	30	50	15	**28**
Madura Garments Ltd.	S F Jeans	15	15	12	**NA**
Kewal Kiran Enterprise	Killer	35	NA	25	**NA**
Arvind Morjni Brand Pvt. Ltd.	Tommy HilFiger	NA	9	NA	**7**
Celebrity Fashion Ltd.	**Indian Terrain**	**5**	**7**	**NA**	**7**

9.3 Trade Margins and Commercial terms

<u>Terms of Credit</u>

Extension of credit forms a major part of trade practice. Provision of credit as a structured trade practice is extensively prevalent in the lower priced product categories – lower, economy and mid segment.

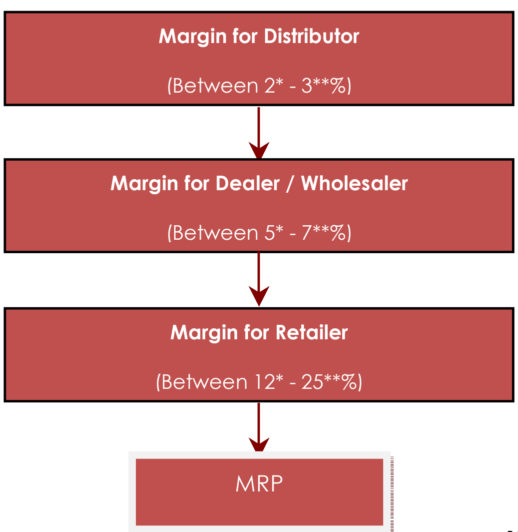
Minimum	:	30 days credit
Maximum	:	45 days credit

Extending credit facility to dealership network for premium and super-premium products has not been standardized as yet. The terms of payment depend on the durable business relationship between the manufacturer and the trading partners.

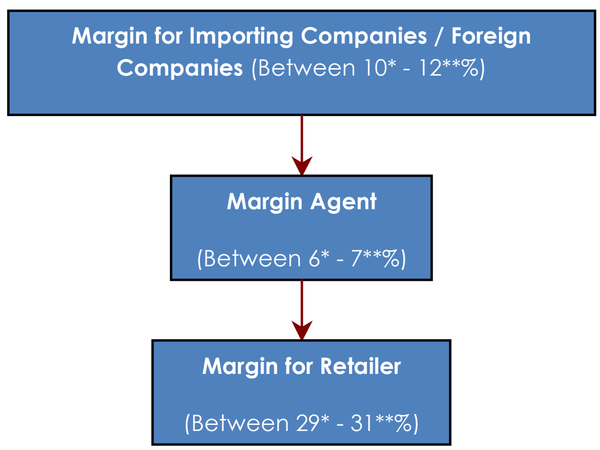
<u>Trade Margins</u>

The margin keeps on changing in accordance with business swing. Margins as prevalent at each stage in the entire chain are presented as under:

Domestic segment



Import segment



<u>Note</u>: * Fast moving products

** Slow moving products

10. Opportunities for Italian companies to enter the Indian market

10.1 Positive Experiences / Perceptions about Italian Products

As mentioned in the previous sections, Italy has been one of the key counties from where fashion clothing and garment products and raw materials are sourced in India. Many major companies in India have business tie-up with the Italian companies and they are involved in production and marketing of their products in India.

A large number of Italian companies and brands have a presence in India and are therefore known to Indian manufacturers, retailers and users. During the primary survey conducted for the purpose of this study, the manufacturing companies, importers and retailers were asked about their experiences and perceptions about the Italian products. They were asked to rate the Italian textile clothing and garments on some key criteria, and the results are presented below:

Experiences / Perceptions about Italian products vis a vis Indian products

Parameter	Qualitative/Comparative Rating		
	Manufacturers	Distributors / Importers	Retailers
Performance	1.95	1.50	2.33
Durability	2.42	1.83	2.17
After Sales Service	2.29	2.00	2.50
Price	2.08	2.33	2.29

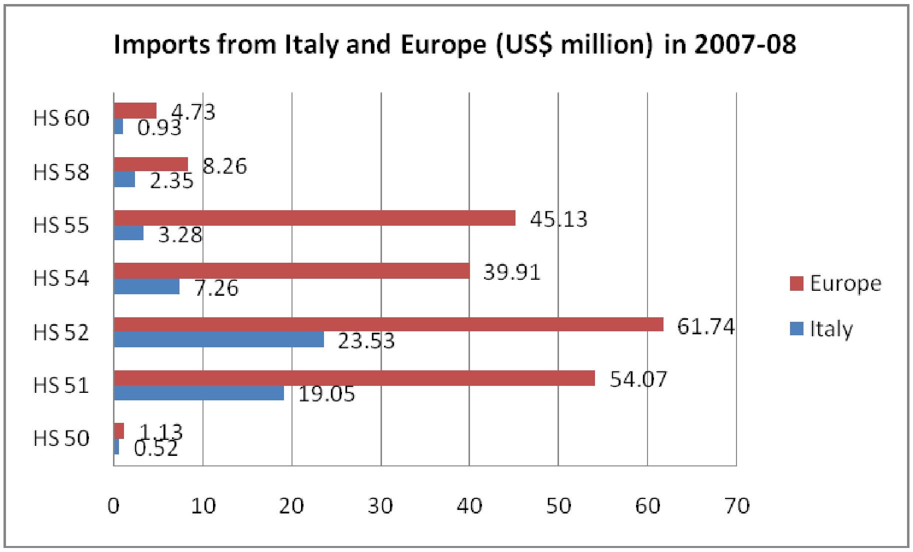
Rating Index: 1 – Much better; 2 – Better; 3 – Comparable; 4 - Worse

10.2 Increasing trend in Imports from Italy

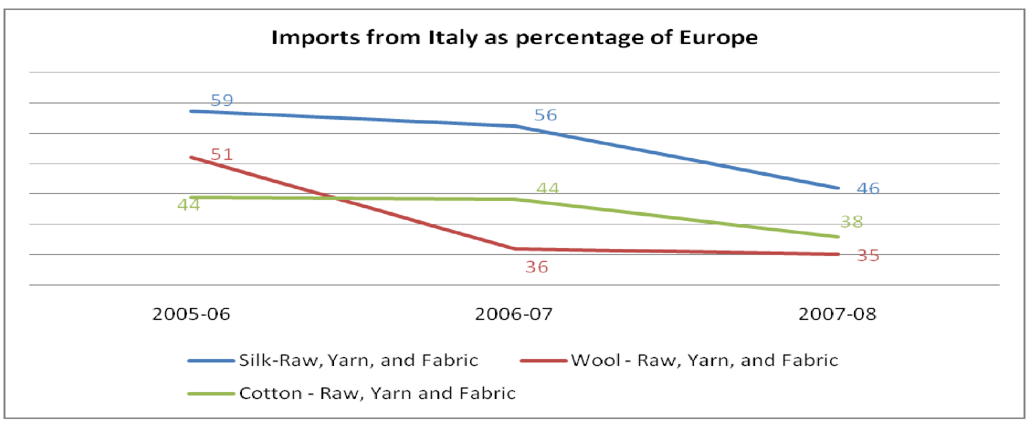
Raw Material and Semi-Processed Fabrics

As far as the raw materials are concerned, the share of Italy in the total imports in 2007-08 has been about 2.5% of total. But it has sizeable share of more than 26% in the total imports from Europe.

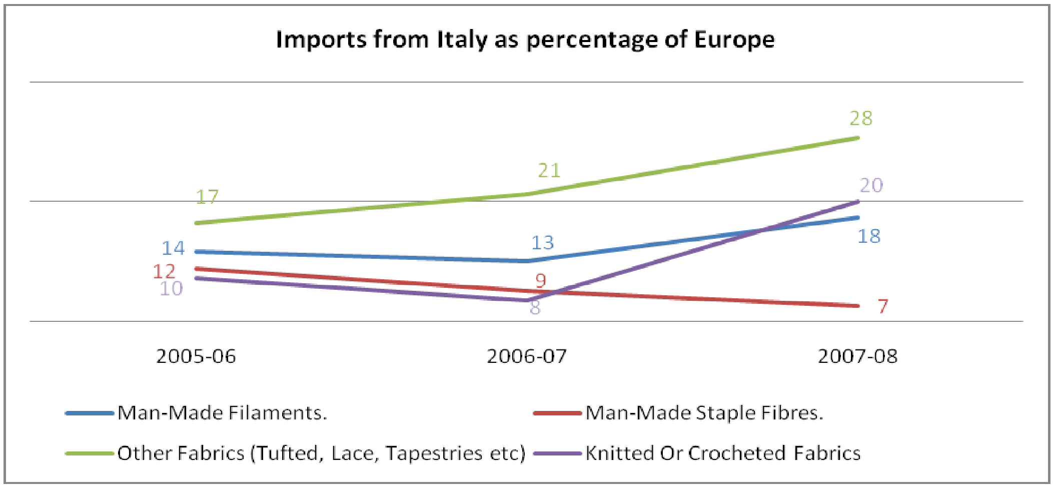
Share of Italy and Europe - Imports of raw material and semi-processed fabric in 2007-08



The share of Italy in total import from Europe has actually been fluctuating. In 2006-07, it was 45%, where as in 2005-06, it was 31%. The Italian share in the natural fibres – raw, yarn and fabric has been substantial but it is actually falling over last 3 years.



The share of man-made yarn and fabric, on the other hand is increasing, but has not been able to compensate for the decrease in the market share due to natural fibres and fabric. The import of special woven fabrics, tufted textile fabrics, lace, tapestries, trimming and embroidery has been increasing from Italy.



The major competitors of Italy from Europe which are exporting yarn and semi fabric into India are Germany, UK, Spain, Belgium and France. Among the imports into India, there has been few commodities where the share of Italy among the global imports has been substantial has been tabulated below. The Asian countries, especially from East Asia and South Asia are the main competitors of Italy in these commodities. China, Korea, Japan, Thailand, Malaysia, Pakistan, and Bangladesh are notable.

Imports of Fabric from Italy relative to the Largest Player

HS Code	**Commodity**	**US $ million in 2007-08**		
		Total Imports	**Italy's Share**	**Largest Player ***
HS 5111	Woven Fabrics of Carded Wool or Of Carded Fine Animal Hair	28.54	3.24	13.26
HS 5112	Woven Fabrics of Combed Wool/Fine Animal Hair	12.88	5.63	2.26
HS 5208	Woven Fabrics Of Cotton Counting>=85% By Wt of Cotton Weighing not more than 200 G/M2	153.87	10.54	96.09
HS 5209	Woven Fabrics of Cotton, Counting >=85% Cotton by weight, Weighing >200 GSM	106.19	10.15	35.31
HS 5211	Woven Fabrics of Cotton, Counting <85% Cotton, mixed mainly with man-made fibres weighing > 200 G/M2	5.18	0.52	2.21

HS 5212	Other woven fabrics of Cotton	7.93	0.89	4.31
HS 5408	Woven fabrics of artificial filament yarn, including fabrics obtained from Materials of Heading No.5405	5.76	0.25	2.99
HS 5515	Other Woven fabrics of Synthetic staple fibres	21.93	0.98	8.54
HS 5801	Woven Pile Fabrics & Chenille fabrics other than fabrics of Heading No.5802 Or 5806	13.38	0.18	10.15
HS 5806	Narrow Woven Fabrics except Goods of Heading 5807 narrow fabrics consisting of Warp without weft assembled by means of an Adhesive	36.3	1.37	10.48
HS 5807	Labels badges & similar articles of textile materials in Pieces/Strips/Cut to Shape/Size not Embroidered	20.78	0.48	14.73
	Total	**412.74**	**34.23**	**200.33**

** It is China except in HS 5807, where Hongkong is the largest player*

Source: DGFT, India

Imports of Yarn from Italy relative to the Largest Player

HS Code	**Commodity**	**US $ million in 2007-08**		
		Total Imports	**Italy's Share**	**Largest Player**
5106	Yarn of Carded Wool not put up for retail sale	2.99	1.17	Indonesia: 0.60
5107	Yarn of Combed wool not put up for retail sale	2.73	0.29	China: 1.94
5108	Yarn of fine animal hair (Carded/Combed) not put up for retail sale.	0.59	0.14	China: 0.38
5109	Yarn of wool or fine animal hair, put up for retail sale	0.75	0.14	New Zealand: 0.41
5205	Cotton yarn (other than swing thread) counting 85% of more by weight of more by weight of cotton not put up for retail sale	14.29	0.38	Pakistan: 8.80
5510	Yarn (other than sewing thread) of articles staple fibres not put up for retail sale	5.37	0.43	Nepal: 2.28
	Total	26.72	2.55	

Source: DGFT, India

Import of Finished Products

Imports of apparel products into India from Italy have been witnessing a sustained increase over the past few years, both in absolute terms as well as in terms of share of total imports into India from European Union.

Italy enjoys the *numero uno* position within EU, in exports to India. Import share from Italy works as a barometer that measures the quality level of consumers in the exporting country. Italy's import as percentage share of EU's overall imports in to India by volume has increased in the first two years but declined in 2007-08. This decline perhaps occurred due to economic meltdown which has adversely affected the production infrastructure of textile industry in general. In contrast, Italy contributed much higher share to the overall imports in to India. Its share in EU's import veered around 37 to 38% by value in the past 3 years.

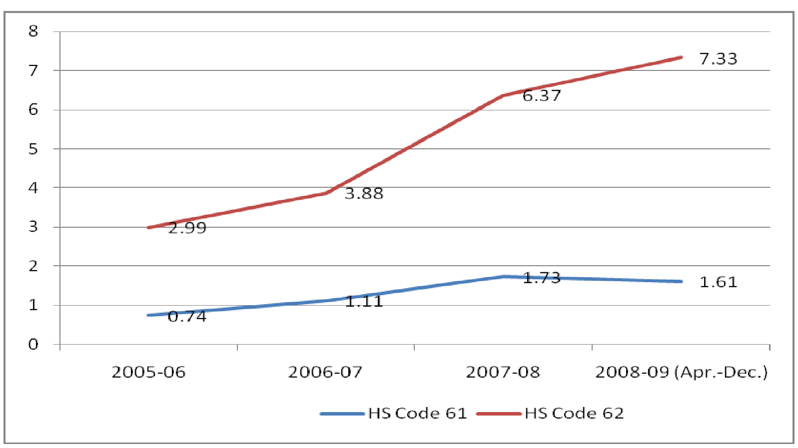
The products imported show a steady growth from 3.74 million euro in 2005-06 to 4.99 million euro in 2006-07 and further to 8.10 million euro in 2007-08. The products imported during the past 10 months (April-December 2008-09) has already outperformed the preceding year**.**

Import into India from Italy: By Value - Euro Million

HS CODE	2005-06	2006-07	2007-08	2008-09 (Apr.-Dec.)
61	0.74	1.11	1.73	**1.61**
62	2.99	3.88	6.37	**7.33**
TOTAL	**3.74**	**4.99**	**8.10**	**8.95**

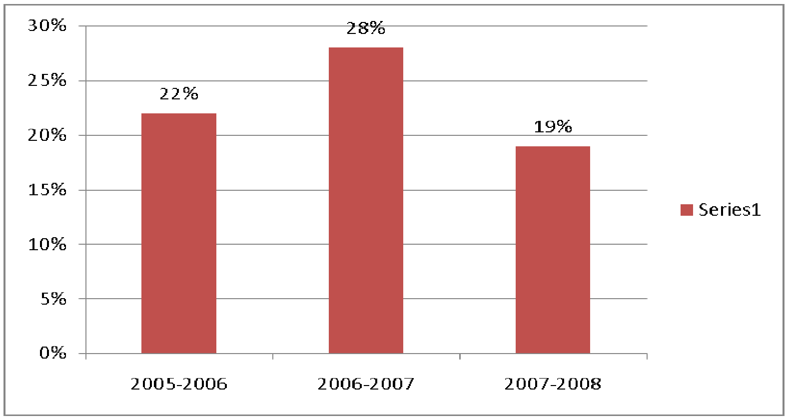
Note: 1 Euro = 64 Indian Rupees

Import into India from Italy: By Value (million Euros)

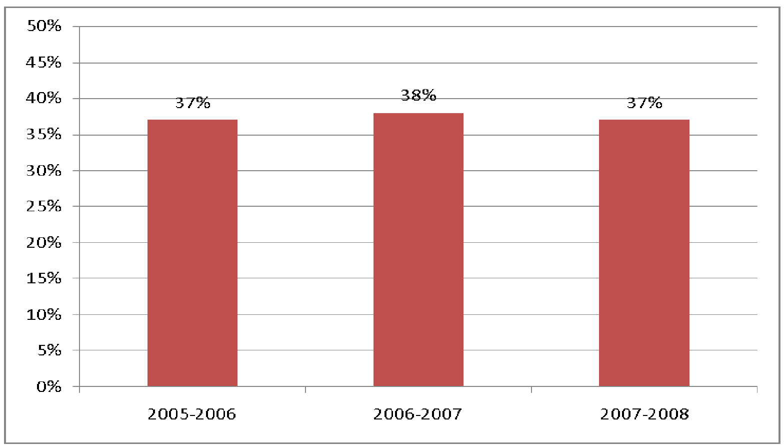


CAGR: 33.8%

Italy's share in Import of Apparels from EU: By volume



Italy's share in Import of Apparels from EU: By value



10.3 Demand for Italian products

There is no denying the fact that Indian apparel industry has made rapid strides in recent years. However, even now the growth of the industry mostly revolves around volume. Indian garment industry is saturated with low and medium quality products. It lags far behind in terms of quality especially from the point of view of international standard.

Indian fashion industry faces a huge gap especially for high fashion at affordable prices. Here European apparels in general and Italian products have a major role fill up the pent –up consumer demand.

10.4 Market opportunities

While doing apparel business in India, European manufacturers rely on the intrinsic strengths of:

- Large and growing domestic market
- Provides opportunities for competitive advantage (low cost sourcing of products and services; exceptional quality; intellectual skills; etc).
- Many see India as key to their long-term global growth and competitive advantage.

The domestic market opportunity

While 50% of the India's population was classified in the low-income bracket in 1994-95, this percentage is rapidly declining accounting for about 17.8% of the population by 2006-07. At the same time, there is a rapid shift from the low-middle classes to the burgeoning middle class, and an even faster increase in the sizes of the high and upper middle class, fuelling growth in the economy. Equally more pronounced is the growth of a niche 'super-rich' class, now estimated to comprise of over 100,000 households with net worth of >$1 million each.

Based on the assessment of opportunities in the Indian textile apparels and clothing sector, it is reasonable to infer that the opportunities for Italian companies in India are mainly in the nature of:

- Franchise / Licensing agreements with manufacturers/importers in India for marketing of products in India, with the Indian partners being responsible for market promotion, brand building, distribution and retailing in India. Besides, the Indian partner should also take care of compliances with Indian regulatory requirements.
- Joint Venture / technology tie ups with Indian manufacturers for production in India for supply in the domestic as well as overseas markets, under the Italian brands.
- Establishment of manufacturing facilities in India – either as a Joint venture or as a 100% owned subsidiary (Greenfield investment or acquisition). Such units could also be set up under the 100% EOU scheme which offers significant benefits such as import duty exemption on plant & machinery etc., as elaborated in an earlier section of this report.
- Supply of raw materials and semi-finished fabrics to Indian manufacturers / retailers.
- Sourcing tie-ups for sales in Europe and other overseas markets