



The Textile Industry and Related Sector Report 2009





Introduction

This market research study on Textiles and related sectors in India has been commissioned by Italian Trade Commission (Trade Promotion Section of the Consulate General of Italy), Mumbai, for which Ace Global Private Limited, a consultancy company based in New Delhi, has been appointed.

The main objectives of the market research are to carry out a detailed market analysis of the industry, in order to identify potential opportunities for Italian entrepreneurs interested in the Indian market.

The scope of the market research covers the following key segments of the industry:

Textiles Apparel & Clothing
Undergarments
Home Textiles, and
Accessories

The findings of the research are presented in the following sections.

Market Characteristics

The Textile Industry in India is one of the largest and most important industrial segments of the Indian economy accounting for over one fifth of the country's industrial production. It provides employment to around 15 million people who have helped produce one of the largest varieties of yarn, fabrics, textiles, clothing and garments, home furnishings and other textile products in the world.

Textiles industry, including related sub-sectors, is worth about Euros 38 billion of which domestic segment constitutes 65% while 35% comes from exports. The textiles segment accounts for 59% of the industry, with apparel and other made ups constituting the balance. This industry also accounts for nearly 21% of total employment in the country.

Besides the textiles, apparels & clothing, the industry covers a wide range of home furnishings (bed linen, curtains and upholstery, floor coverings, kitchen linen, bath linen, etc.) and Accessories (including apparel accessories, like stoles, scarves, etc., hard accessories like bags, wallets, fashion jewellery, time wear and eyewear etc.).

Market Size

The total market size for the sub-sectors covered in this study is estimated at Euro 21.7 billion in the year 2008-09 with textile clothing and garments having a major share of 93%. Home textiles and furnishings, and textile usage in accessories was insignificant with a collective share of less than 0.5% of the total market.



Market Size by Value – Euro Million

	2008-09	% share
Textile Clothing & Garments	20,219	93%
Undergarments	1,487	6.80%
Home Textile Furnishings	2.16	0.01%
Accessories	0.29	0.001%
Total	21,708.45	

Textiles Apparel and Clothing

India's domestic market for apparel & clothing is currently worth Euro 20,219 million in 2008-09. 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 2008-09 at a CAGR of 5.3%.

Apparel and Clothing is the second largest retail category in India. India's domestic market for apparels is currently worth over Euro 20 billion in 2008-09. 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 2004-05 to 5.9 billion units in 2008-09 at a CAGR of 5.3%.

India's Apparel & Clothing Market

	2004-05		2006-07		2008-09 (estimates)	
	Volume (million units)	Value (Euro Million)	Volume (million units)	Value (Euro Million)	Volume (million units)	Value (Euro Million)
Menswear	1,328	4,450	1,443	5,605	1,600	6,938
Women's wear	1,368	3,856	1,523	5,106	1,676	6,414
Unisex apparel	466	1,014	519	1,461	579	1,816
Kids' wear	1,222	1,836	1,323	2,333	1,468	2,975
Uniforms	423	991	498	1,461	581	2,077
Total	4,807	12,147	5,306	15,966	5,905	20,219

Undergarments

The 70's witnessed the entry of undergarments in India when Peter Pan from Dawn Mills entered the market with lingerie styles of the West. The undergarment market further proliferated and flourished in India significantly when international majors forayed in to Indian market in a big way since the onset of the 90's.

India's domestic market for undergarments is currently worth about Euro 1.5 billion in 2008-09. It has grown at a CAGR of about 15% in the past three years. Volume wise, apparel market has grown from 914 million units in 2006-07 to 1.05 billion units in 2008-09 at a CAGR of 7%.



India's Undergarments Market

	2006-07		2008-09	
	Volume (million units)	Value (Euro Million)	Volume (million units)	Value (Euro Million)
Production	914.28	1,372.5	1,049.87	1,485.9
Import	0.36	1.4	0.55	1.1
Total	914.64	1,373.9	1,050.42	1,487.0

Home Textile Furnishings

The total urban market for the home textiles in India in 2005-06 was estimated to be Euro 1.45 billion. With a modest growth rate of about 14%, the market in 2008-09 is about Euros 2.16 billion and is expected to cross Euros 3.12 billion by 2011-12.

India's Home Textile Furnishings Market (Euros billion)

	2005-06	2006-07	2007-08	2008-09	Growth rate
Bed Linen	0.78	0.9	1.03	1.19	15%
Bath Linen	0.18	0.22	0.25	0.29	15%
Kitchen Linen	0.04	0.05	0.06	0.06	10%
Curtains	0.16	0.18	0.20	0.22	12%
Upholstery	0.16	0.18	0.21	0.24	15%
Others	0.13	0.14	0.15	0.17	10%
Total	1.45	1.66	1.89	2.16	

The market for home textiles is dominated by bed and bath linen, which have more than two-third of the market share in value terms. Bed linen alone has a market of about Euros 1.19 billion according to the estimates. Apart from the home textile products given in the table below, the other articles included in the total market size are textile made-ups like wall hangings and other decorative home furnishing articles.

Accessories

Usage of textiles and fabrics in the Accessories sector is valued at approx. Euros 0.28 -0.30 billion in 2008-09, of which bags alone account for 61% and apparel accessories and other fashion accessories account for 39%.

The most common fabrics used in accessories are cotton, denim, silk, wool and rayon. Given the wide variety of products, with production largely concentrated in the unorganized sector, no official estimates for consumption of fabrics in the accessories sector are available. Therefore



for the purpose of this study, the market size has been estimate based on discussions with key players and industry bodies during the primary research, as presented below.

India's Accessories Market (Usage of textiles and fabrics only)

Bags	Rs 11,000 to 11,500 million
Apparel & other fashion accessories	Rs 5,500 million
Belts	Rs 1,200 to 1,500 million
Jewellery	Rs 400 to 500 million
Time Wear	Rs 12 to 15 million
Eye Wear	Rs 7 to 8 million
Total	Rs. 18 – 19 billion (Euro 0.28-0.30 billion)

Demand Drivers

As stated in the preceding section, the market for textiles and related products has been consistently growing annually by 12% – 15% for various sub-sectors. The key factors driving this demand are:

Demand Side factors

With over 1.1 billion people, India is the second most populous country in the world. In terms of the demographic “window of opportunity”, India is home to 17% of the world’s population. It is also one of the youngest countries in the world, with over 65% of the population below 35% years of age. The young generation of professionals, both men and women, form important consumer groups with high purchasing power. This buying group is more demanding in their choice of products, looking for quality that satisfy comfort, fitting, styling needs etc. This has resulted in a qualitative shift of consumers from low / economy range to premium and super-premium range of products.

Growing prosperity of middle class: Indian corporate salaries have grown at 14% per annum, which is considered to be fastest globally. A large number of households are getting added every year to the consuming class with growing income levels, resulting in increasing affluence of the upper middle and high income strata. According to various studies, there were more than 300 million middle class people in India in 2007 with substantial disposable incomes. This number is expected to touch 600 million by 2010. There will be a sustained and increasing demand for various consumer products by this segment of population.

The increase in urbanization and nuclear family structure, a growing number of educated and employed women, media proliferation and growing consumerism, have all contributed to the growth of consumerism and organized retailing. The increasing working female-population has not only increased the income of households, but also changed the outlook of women towards their choice of clothing, home furnishings and its interiors. There is a trend of going with the seasonal tastes.

Changing face of consumer: In spite of the economic meltdown in recent times, there has been a continuous and sustained shift in consumer demand pattern from basic necessities to spending on lifestyle products and services continues, largely due to:

Higher Income

Younger age profile



Increasing literacy levels

Increasing exposure and awareness levels

Higher adaptability to technology

Increasing urbanization

Changing role of women and children in the decision making process

Increased demand for better shopping experience

Impulsive purchase behavior among youngsters

Changing fashion trends and increased consciousness

Catch up with International fashion styles

Sustained growth of retail culture in the country: According to Central Statistical Organization, and Technopak, the retail market in India was about Euro 210 billion, and will cross Euro 440 billion in 2015, with organized retail growing at nearly 20% per year. The emergence of mall culture and rapid development of malls would act as a catalyst in this retail growth story.

Due to the increase in the income levels of people and the push from the supply side of realty boom in this decade has created a housing boom in India. About 2.5 million new homes are to be constructed to meet the demand of middle class and upper strata of income groups. Housing and Hospitality sectors are the major sectors, with huge demand for soft furnishings. As per estimates, the total shortfall of quality hotel rooms in India in all luxury, premium, economy and budget hotels is about 150,000. More than 40,000 hotel rooms are expected to come in top 10 metro cities by 2012.

Supply Side Factors

Leading textile manufacturers are integrating their businesses vertically and have strong competencies in spinning, weaving and finishing.

There has been a significant improvement in the infrastructure related to textile machinery, transport and power which are further augmenting production. Government of India has allocated substantial funds for infrastructure development through schemes like TUFS, and SITP, worker skill development trainings etc.

Lateral consolidation of players through organic and inorganic growth domestically and internationally. Indian companies have acquired the global brands abroad in order to consolidate their global positioning and have established wholly owned foreign subsidiaries abroad.

End of quota regime acting as a stimulus to further export growth.

Assessment of Demand and Market Potential in India

The overall assessment of demand and market potential in various sub-sectors, projected on the basis of past growth trends and industry expectations, is summarized in the table below.

The total market is expected to increase from Euros 21.7 billion in 2008-09 to Euro 29.4 billion by 2011-12, with overall compounded annual growth of 7.89%.



Assessment of Market Potential - Value (million Euros)

	2008-09	2009-10	2010-11	2011-12
Textile Clothing & Garments	20,219	22,342	24,688	27,280
Undergarments	1,487	1,673	1,882	2,117
Home Textile Furnishings	2.16	2.48	2.81	3.23
Accessories	0.29	0.34	0.39	0.45
Total	21,708.45	24,017.82	26,573.20	29,400.68

Assessment of Market Potential - Volume (million nos.)

	2008-09	2009-10	2010-11	2011-12
Textile Clothing & Garments	5,905	6,200	6,510	6,835
Undergarments	1,050	1,126	1,206	1,292
Home Textile Furnishings	Indeterminate			
Accessories	Indeterminate			

There are no authentic statistics available on the production and the total market size of the home textile products and accessories, as no official data is compiled due to the unorganized and highly dispersed nature of sectors.

The above estimates for home textile furnishings have been computed taking the overall average annual growth rates of domestic urban market (considered relevant for the foreign brands) as 15% for bath linen, 10% for kitchen linen, 12% for curtains, 15% for upholstery and 10% for other products. It should be noted that, above estimations is only for urban India, which is.

Market Structure and Segmentation

The market segmentation for various sub-sectors is on following basis:

Textile Apparels and Clothing:

Segmentation by User category: Men's wear, Women's wear, Unisex apparel, Kids' wear

Segmentation by Use: Formal, Casual, Traditional, Active sportswear, Uniforms

Segmentation by Price: Super premium, Premium, Medium, Economy and Low end

Undergarments:

Segmentation by types of Suppliers: Informal/Unorganized sector, Organized sector

Segmentation by Price: Super premium, Premium, Medium, Economy and Low end

Home Textile Furnishings

Segmentation by types of Suppliers: Informal/Unorganized sector (70% share), Organized sector (30% share) ; Branded and Unbranded

Segmentation by Use: Bed linens, Curtains & Upholstery, Bath linen. Kitchen linen etc.

Segmentation by Price: Super premium, Premium, Medium, Economy and Low end

Accessories:

Segmentation by Use: Apparel accessories (scarves, stoles, shawls etc.), Hard accessories (bags, belts etc.), Packaging for jewellery, time wear, eye wear etc.

Segmentation by Price: Super premium, Premium, Medium, Economy and Low end



Price Segmentation

The price segmentation of the market is broadly in three 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 regional and local manufacturers, and sold through small neighbourhood stores. The low and economy segment is growing in terms of volume and value and the industry is becoming more organized.

The mid-range market: This segment features medium range of products. Though primarily volume driven, this category caters to diverse sections of Indian consumers across all regions, its quality is by and large acceptable to all sections. The mid-market segment is characterized by the presence of regional and national players. The market is continuously expanding and becoming more and more competitive in respect of quality and price.

The high end market: 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. Mainly comprises of large Indian players and the foreign companies/ international brands operating in the premium and super-premium product categories. Super-premium products are considered luxury products and marketed by top national and international giants.

Illustrative prices for products in various price segments are provided below:

Textile Apparels and Clothing

MENSWEAR		WOMEN'S WEAR		UNISEX APPAREL	
Product Category	Average Price (Euro/ Piece)	Product Category	Average Price (Euro/ Piece)	Product Category	Average Price (Euro/ Piece)
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+



Undergarments

Men's Segment		Women's Segment	
	Average Price (Euro/ Piece)		Average Price (Euro/ Piece)
Super Premium	4+	Super Premium	11+
Premium	2 – 3+	Premium	4 – 10+
Medium	1 – 2+	Medium	2 – 3+
Economy	1+	Economy	1+
Low	< 1	Low	< 1

Home Textile Furnishings

Bed Linen	Average Price (Euro / piece)	Bath Linen	Average Price (Euro / piece)
Bed Sheet Single		Bath Towel	
Super Premium	31.25	Super Premium	17.19
Premium	15.63	Premium	9.38
Economy	6.25	Economy	5.47
Low	2.34	Low	3.13

Table Linen	Average Price (Euro / piece)	Curtains And Other Made-Ups	Average Price (Euro / piece)
Table Cover (Cotton)		Curtains (Cotton)	
Super Premium	21.9	Super Premium	39
Premium	9.38	Premium	18.75
Economy	6.25	Economy	7.81
Low	2.34	Low	3.9



Accessories

Apparel Accessories (Scarves)		Bags	Belts		
	Average Price (Euro/ Piece)		Average Price (Euro/ Piece)		Average Price (Euro/ Piece)
Lower	Upto 30	Lower	2 - 10	Lower	2 to 8
Medium	30 – 55	Medium	10 – 30	Medium	8 – 25
Premium	55 +	Premium	30+	Premium	25+

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 product collections and are more familiar with design, quality and latest trendy fashion, as well as the luxury of greater choice.

The relatively undeveloped regions offer several in-built advantages as well. Fashion contenders setting out to do businesses 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 product/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 products than his counterpart in the west or south where the winter is much milder.

In India, different states are known for their specific style of clothing, home furnishings etc. For example J&K is the leading state for embroidered bed covers whereas Rajasthan (Jaipur) is famous for block printed, tie & dye bed covers, with mirror work, appliqués, and bright colors. The market also depends upon the production and raw materials and government policies and programmes in specific states. Although there is an increasing influence to western and contemporary designs, Indian industry is still greatly influenced by the traditional regional motifs, with the materials of satin mix, tapestry for drapes and even cotton mixes with synthetics for the traditional look. Fabrics with bold prints and pastels are making a comeback. Polka dots and stripes, inspired by the retro, have made a comeback into the collections the world over.

The sales of textile products increase significantly during the festival seasons in India, by up to 40 – 50 percent. Regional and national festivals (e.g. 'Diwali' is one of the most important



festivals in India during October/November) are the time to buy new clothes, renovate home furnishings.

Consumer Behavior and Preferences

The Indian consumers are noted as among the most discerning consumers in the world with a high degree of value orientation. Even, luxury brands have to design a unique pricing strategy in order to get a foothold in the Indian market. Indian consumers also have a high degree of family orientation. 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: These are the upper class who shops in specialty stores and own exclusive accessories, and have a luxurious lifestyle.

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.

The Conservatives: These are the middle class population of India, who are very price conscious and demand more value for money.

In addition to the above, the following segments are becoming increasingly important in purchase of consumer products:

Working Women: Working women with disposable incomes are the key factors for the growth of women's accessories. An Indian woman is no longer just a homemaker. She is willing to buy designer products and is ready to pay high premiums for the same.

Youth: With the increasing exposure to International fashion styles, the Indian youth is gaining more awareness and becoming style conscious. This segment believes in impulsive purchasing.

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.

These days, the purchasing behaviors in India are greatly affected by the western tastes. The role of media, magazines, televisions have been increasing in making people aware about the new trends. There is a craze to own the best brands and designs among the people. The



premium luxury brands are available only in the tier1 and tier2 cities hence making them a good market.

Purchase Pattern of Textile Products

Major findings of textile products based on All India consumer survey conducted by Textile Committee, Government of India, 2006-07 are presented as under:

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.

Brand Preferences

Brand building is a stupendous task which involves high investment on production infrastructure, technology up-gradation and enormous merchandizing. This has inspired lesser known medium sized players who are trying to establish their products in the market through creation of brands. There is a strong indication that Indian market will have large a number of brands in near future in view of market expansion and increasing competition.

Preference for particular apparel brands depends on individual tastes and preferences.

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.

The Undergarments segment is characterized by well known national brands operating in the medium priced segment. Premium and super-premium product categories comprise branded products distinguished for exclusive product features operating at the high ends of the market. Efficient logistics and supply chain management and media exposure have largely contributed to the popularity of these brands.

Branding is a relatively new phenomenon in the Indian home textile furnishings market. In Accessories, the consumer demand for premium products is on the rise. Style conscious customers with money look for variety. Consumer inclination for mix-n-match to build their wardrobe is acting as a catalyst in the growth of accessories market.



Some popular brands in the Indian Market (Illustrative)

	Indian	International
Textile Apparel & Clothing	Raymond's (Park Avenue, Oaex, Colour Plus), S Kumar's, Arvind	Monzoni, Van Heusen, Allen Solly, Benetton, Levi Strauss, Reid & Taylor, FCUK, Calvin Klein, Tommy Hilfiger, LeeCooper, Esprit
Undergarments	VIP, Lux, Rupa, Softline, Juliet, Body Care	Triumph, Sloggie, La Mode, Enamor, Jockey
Home Textile Furnishings	Bombay Dyeing, Raymonds, Welspun, Masper, Orient Craft, Abhishek	Portico, Rosebys, Paradies, Ivy, Fern
Accessories	HiDesign, Baggit	Allen Solly, Bulchee, Jane Shilton, Tommy Hilfiger, Esprit, Diesel

Factors Influencing Brand Preference

Brand preference pattern of consumers depends upon a host of factors such as:

Combination of price, quality & fitting as major parameters of purchase decision for sensitive but smart consumers

Track record of Indian manufacturer/ reputation of foreign joint venture partner.

Reputation of international companies

The consumers place 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. Sales discounts also tend to influence the purchase decisions of consumers provided the minimum parameters/ features are not compromised with.

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.

Degree of Elasticity of Demand of Local Consumers

Considering that price elasticity depends to a large extent on the degree 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 much leverage on price.

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

Production Scenario in India

The Indian apparel / garment industry is highly dispersed and 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.

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%). Women's wear (western suits, coats, blazers, trousers and skirts) have been the fastest growing categories at around 11% per year.

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%).

The pattern of production of garment industry is weighted in favor of ladies' garments (44% of the market). However, in value terms, men's wear accounts for higher share in production (46%). The low end products even now constitute nearly half the production, and economy products constitute another 25-30%.

The production of undergarments in India increased from 914 million units in 2006-07 to 1050 million units in 2008-09. Bulk of the Indian undergarment industry is labour intensive, comprising of small scale industrial (SSI) units operating across various regions and catering to local market requirements. The women's segment accounts for about 65% of total production. Medium & Economy ranges constitute a major share of production both in the men's and women's segments. Super-premium & premium categories constitute negligible share in

production in either segment. More than 1,000 brands are reported to be functional across India, of which about 200 brands are active nation-wide.

The domestic home textile furnishings production is estimated at about Euro 2.5 billion in 2009-10, dominated by bed linen. The share of the unorganized sector is about 70% and organized is approx 30% by value. The product range comprises of furnishing fabrics and made-ups of jacquard and dobby weaves of various types of fibre like cotton, polyester, rayon blends, chenille, flax, silk, jute, linen and other blends. The market has been growing at around 9 to 10% per year in the past 4 years and will continue to grow unabated in the next 3-4 years. The organized sector is likely to grow at the cost of unorganized sector. The production trend of blankets, upholstery and mattress, which accounted for much less share in production in the



earlier years, has now reported higher production due to revival of consumer demand. Majority of products are produced in the handloom sector. Power looms have been introduced in recent years.

Across all sub-sectors, the medium segment comprises of large number of players operating at a national level. The large Indian companies have better access to technical and marketing expertise as well as the benefits of brand licensing through foreign collaborations. The collaborations have helped them to position their branded products either in the premium or super premium product segments.

The production facilities of large players include in-house designers, yarn processing, weaving, bleaching, dyeing and sewing units with latest machines. The large manufacturing companies have latest and most modern machines for weaving, spinning, dyeing etc. This has not only helped large players to increase their production but also improve the quality of the product.

Major Concentration Areas of Production

Although the production units, particularly the unorganized sector units, are widely dispersed throughout the country, some locations have emerged as production hubs for specific types of products, as summarized below:

Major Production Hubs in India

Textile Apparels / Clothing and Undergarments	Tirupur & adjoining cities	Cotton knit wear export hub
	Mumbai & Sholapur	Power loom weaving export hub
	Ludhiana & Kanpur	Woolen knit wear export
	Kolkata Bangalore	Garment & hosiery cotton A cross –section of leading manufacturers turning out varieties of products.
Home Textile Furnishings	Mumbai	Specially known for bedspreads, pillows and cushion covers, and bathroom textiles.
	Delhi	Important players are Orient Craft, Modelama Exports Ltd., Vrindavan Overseas, Gujrat Heavy Chemical Ltd. (GHCL), Alps Industries Ltd., Vanasthali Textile Industries Ltd.
	Panipat	Panipat is famous for its floor coverings and other home furnishings.
	Karur	Karur has a niche in five major product groups — bed linens, kitchen linens, toilet linens, table linens and wall hangings.
	Others	Cannanore, Jaipur, and Mirzapur/Badohi are other important clusters, geared for production of home textiles mainly for export market.



State of Technology

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.

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

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 as 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.

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 remaining are independent process houses (or part of composite mills) that use automated, semi-automated large batch or continuous processing. Use of polluting dyes is prohibited across all sub-sectors.

Indian apparel industry exhibits varying levels of technology ranging from traditional to most modern and this has impacted the overall growth and productivity of the sector. Among the apparel manufacturers only 9% of the factories are considered modern by Indian Standards though 33% of manufacturers believe that they have modern plants, while 16% owners feel that they have a world class plant but actually none of them, according to a study, have reached that stage.

Large Indian undergarment manufacturers in the organized sector conform to Indian Standards specifications for manufacture, raw material usage and accessories. The industry primarily consists of small and medium enterprises (SMEs) with traditional technology and inadequate quality systems. The

According to a recent study carried out by National Institute of Fashion Technology, in export sector only 21% manufacturers' use modern technology even by Indian Standards while 70% employ somewhere between modern and old technology.

Foreign collaborations

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, foreign players use India as a low cost production base for third country exports.



Major Foreign Collaborations

Apparel & Clothing

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	Esprit Global Ltd, USA	JV
DCM Benetton India	Benetton International	JV for knits
Future Group	Lee Cooper Ltd,	JV
Fabindia	East, UK	JV
Reliance	Wrangler, John Player & Lee, Diesel	Strategic Partnership
DLF	Giorgio Armani, D&G, Salvatore Ferragamo, Boggi, Piquardo, Emporio Armani	

Undergarments

Name of Indian Company	Foreign Manufacturer	Nature & Area of Collaboration
Page Industries Ltd.	Jockey International Ltd, USA	Licensee
Crocodile India Private Limited, Tamil Nadu	Crocodile International Pvt. Ltd, Singapore	Joint Venture
Gokaldas Intimate Wear Ltd, Bangalore	Barbara, France	Joint Venture
Maxwell Industries Ltd	Lovable World Technology, USA.	Technical Collaboration



Home Textile Furnishings

Name of Indian Company	Foreign Manufacturer	Nature & Area of Collaboration
Welspun Group	Christys, UK, Sorema of Portugal, Vincenzo Zucchi S.p.A	Strategic partnership and JV
GHCL	Rosebys, UK, Dan River, USA	Acquisition
Creative Portico India Pvt. Ltd.	Portico, New York	JV
Alok Industries	Mileta International of Czech Republic	60% stake

Accessories

Name of Indian Company	Foreign Manufacturer	Nature & Area of Collaboration
Madura Garments	Louisse Philippe	Brand License
Genesis Luxury	Aigner	Franchise
Madura garments	Esprit	Exclusive distribution, marketing and retailing rights
Planet Retail Holdings Pvt Ltd	Guess	Licensing
Murjani group	FCUK	Franchise
Murjani group	Tommy Hilfiger	Distribution and Retail store license
DLF Retail Brands Pvt Ltd	Georgio Armani, Emporio Armani	51:49 Joint Venture
Genesis Luxury	Jimmy Choo	Franchise
Aditya Birla Group	Allen Solly	Brand licensing

Besides the joint ventures and technical collaborations for manufacturing, foreign companies have arrangements with the local players, for licensing of marketing, distribution and retailing rights.



Foreign Collaborations for Retail and Marketing

Foreign Brand	Country	Associations with Indian Company (JV/Partner/Franchisee/Licensee/Distributor/Retailer)	Nature of Association
Tommy Hilfiger	US	Creative Portico India Pvt. Ltd.	Licensing Agreement
Benetton	Italy	S Kumar's Nationwide Limited	
Portico	US	Creative Portico India Pvt. Ltd.	Joint Venture
Esprit Holdings Ltd	UK	Aditya Birla Nuvo Ltd.	Marketing
Marks & Spencer	UK	Reliance Industries	JV
Peacock Alley	USA	Alok Industries Ltd	Marketing
Maishaa	Thailand	Subsidiary, Maishaa India	Franchisee, Own stores
Nya Nordiska	Germany	Maishaa India,	Distribution
Kravet	USA	Bharat Furnishing	Dealership
Ardecora	Germany	Jagdish Stores	Retailer

Availability of Raw Materials & Semi-processed Fabrics

Currently India is the second largest producer of raw cotton in the world next to China. Production of both cotton and man-made fibres (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 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. However, between 1995 and 2008 the weaving capacity of the composite mills has declined from 111,540 looms to 55,480 looms.

Spinning Mills convert cotton or MMF into yarn to be used for weaving and knitting. India has about 2,816 spinning mills including SSI units, with total installed capacity of 34.41 million spindles.

Weaving and Knitting Mills convert cotton, man-made or blended yarns into woven or knitted fabrics. This sector consists of about 3.89 million handlooms across some 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.



Domestic Production of Raw Material and Semi-Processed Fabrics (million sq.m.)

	2004	2005	2006	2007	2008	2009 (H1)
Cotton	18,040	20,655	23,873	26,238	27,205	13,371
Blended	6,068	6,032	8,298	6,882	6,888	3,630
100% Non Cotton	17,613	17,998	18,637	19,545	21,175	10,102
Khadi, Wool, Silk	662	693	769	724	763	381
Total	42,383	45,378	49,577	53,389	56,031	27,484

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. Domestic cotton production has grown at 19% CAGR in the past 4 years.

India is one of the largest exporters of yarn in the international market and contributes around 25% share of the global trade in Cotton Yarn. India is the fifth largest producer of synthetic fibers/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.

Imports of Raw Materials 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 Euro 1570 million in 2007-08 as against Euro 1345 million in 2006-07.

The imports have been increasing on a year to year basis; and the rate of growth of imports has increased in the past two years.

Foreign manufacturers, particularly those operating through JVs and franchisee system, look for much better quality of cotton which is not available in India. Superior quality fabrics are imported from European countries. Use of lycra in combination with cotton adds new dimension to the quality of fabric and is very much in demand. Lycra is sourced mainly from Du Pont which has set up a net-work of branches in India to service Indian requirements.

Foreign Trade

Import Scenario

Textile Apparel and Clothing

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 has been growing at a CAGR of 20% by volume



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.

Imports of Apparels - Volume '000 units.

	2005-06	2006-07	2007-08	2008-09 (Apr-Dec)
Articles of Apparel and Clothing Accessories, Knitted or Crocheted.	3659	5983	10565	15081
Articles of Apparel and Clothing Accessories, <u>Not</u> Knitted or Crocheted.	5615	6762	10265	9709
Total	9274	12745	20830	24789

Undergarments

The total imports of undergarments increased from 303,000 units in 2005-06 to over 597,000 in 2007-08. Undergarment imports has witnessed significant rise by value in the past 3 years, with imports from Europe almost doubled as compared to ASIAN & ASEAN region. This has been due to higher unit value realization of products imported. There has been substantial increase in imports of products under HS Codes 610711, 610821 & 19822 in to India in the past 3 years

EU is the leading supplier of undergarments to India. Its share by volume has gone up from 43% in 2006-07 to a whopping 62% in 2007-08. ASIA & ASEAN Region, the second important supplier country has lost its share of import from 52% in 2006-07 to 36% in 2007-08 at the expense of Europe

Imports of Undergarments by volume ('000 units)

Description	2005-06	2006-07	2007-08	2008-09 (estimate)
Underpants & Briefs of Cotton	241.25	25.83	67.54	228.72
Underpants & Briefs of Manmade Fibres	0.93	8.16	8.53	21.09
Briefs and Panties of Cotton	30.06	52.52	314.10	150.03
Briefs and Panties of Manmade Fibres	30.76	124.10	207.48	151.66
Total	303.00	210.61	597.65	551.50

Home Textile Furnishings

The total import of home textiles in 2007-08 was Euro 20.19 million, which is just 2% of the total exports in this category. The imports have picked up since 2006-07. According to the latest figures for 2008-2009 (April-Dec), the imports were Euro 27.80 million. When compared to the total imports of textiles in the country, which is Euro 1.94 billion, it is just about 1.4%.

The key import items of home textiles are blankets and travelling rugs.



As much as 85% of home textile imports in India are from Asian countries, mainly from China. The Commerce Ministry in India, following the completion of a preliminary enquiry has recommended imposition of provisional anti-dumping duty on import of Flax fabrics from China and Hong Kong.

Imports from Europe were valued at about Euro 2.69 million in 2007-08. This is about 13% of all the home textile imports in that year. The total bed, kitchen, bath and table linen imported from Europe was Euro 0.55 million, which constitutes about 20% of all the home textiles.

Accessories

Imports of apparel accessories into India remained at Euro 1.47 million in the year 2007-08 with shawls, scarves, and mufflers of silk having a major share.

Export 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.

Exports of Undergarments have significantly increased from Euro 85.92 million in 2005-06 to Euro 110.9 million in 2007-08. The performance has been even more impressive for the 9-month period of April – December 2008, which stood at Euro 109.97 million.

In Home Textile Furnishings, India is among the world's top three suppliers with exports forming a key component of the home textiles manufactured in India. Almost 15% of all textile and clothing exports from India are constituted by home textiles and made-ups. As per the latest data India exported nearly Euro 1.27 billion of home textiles and made-ups in 2007-08 and it was Euro 0.95 billion in 2008-09 (April-Dec). Indian home textiles which find ready market in the western countries specially USA and European countries are bed linen, table linen, towels, drapery, cushion covers, and kitchen linen.

Exports of Apparel Accessories from India remained at Euro 284.11 million in the year 2007-08 with shawls, scarves and mufflers of other textile materials having a major share. According to the latest figures for 2008-09 (April-Dec), exports were of the order Euro 314.6 million. Exports of apparel accessories from India to Europe were about 40% of total exports in 2007-08.



Competition

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 – with design changing frequently.

Qualitative changes have been taking place in Indian market in recent years. First, the market share of un-organized sector has been shrinking while the organized sector is becoming more

dominant. Second, the market shares of the medium priced products, which characterize largely popular branded products, have steadily gone up. Third, the production of super-premium and premium products is on the rise over the years and this segment has emerged as a commercially viable entity. The market share of both these categories has been increasing both by volume and value. 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.

With competition hotting up in the niche segments, leading players are busy in brand building exercise. The market leaders, in a bid to consolidate its premier position, are working on the strength of innovation, styling and pricing.

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. Vertical integration & horizontal consolidation of production process leading to lowering of	Highly fragmented industry. Informal sector accounts for larger part of manufacturing base. Small scale operation lacks focus on modernization. Critically dependent upon cotton. Raw cotton prices are highly fluctuating in India and impact 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.	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



Strengths	Weaknesses	Threats/ Concerns	Opportunities
<p>manufacturing cost. Large pool of skilled and cheap work force, adding to the competitive edge of the industry in the International arena. Excellent design capability, and robust R&D capability of Indian Designers. Increasing trend is tying up with designers in Europe and the US to enhance product range. 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 domestic market for International manufacturers and retailers encouraging them to invest and set-up manufacturing base. Indian consumers are already exposed to a wide variety of latest products. As a result new products find ready acceptance and trial in the Indian</p>	<p>manufacturing industry adversely. Superior varieties of cotton fabrics for premium quality products are import dependent. Technological obsolescence adversely affects major part of the organized sector in terms of productivity. Low technology levels in the weaving and processing sectors continue to erode the competitive strengths of textiles exports. 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 competitiveness of domestic manufacturers. Increase in power tariff, indirect tax and interest rate resulting in higher production cost. India is becoming less competitive vis-a-vis Asian counterparts. Lack of standardization and quality control has resulted in higher rejections in the</p>	<p>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. Absence of standardization and quality control and organized vendor-base characterizing the larger part of the industry 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. 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</p>	<p>products in India for years. Elimination of Quota Restriction, according to FICCI research, has helped India expand its global market further since 2005. Changing life styles with increasing incomes and retail boom led to dramatic shifts in buying pattern. 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 investment in view of the increasing market presence of international giants. Currently there are no specialized retail chains of fashion accessories - an opportunity for boutique stores and designers to offer distinctive high end collections. Government's favorable foreign investment policy is expected to work as a catalyst to garner more direct as well as foreign institutional investment.</p>



Strengths	Weaknesses	Threats/ Concerns	Opportunities
market. Government support to increasingly diversify and further exports.	export market. Organized retail constitutes a small share and most retail stores in India are small (200-300 sq ft).	countries. Increased global competition in the post 2005 trade regime under WTO.	Free trade agreements like SAFTA and India's recent inclusion in ASEAN trade block.

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. 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.

Potential for European Companies in India

European Union has a traditional bilateral trade relationship with India for many decades. European textile companies have considerable investments and market presence in India. Besides increasing imports of apparel in to India from EU, the 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.

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 Euros in 2005-06 to 22 million Euros at a CAGR of 48% within a short span of three years. EU import constituted about 25% of total apparel imports into India by value in 2005-06. Its share increased further to 30% in 2007-08.

The increase in imports from EU is not restricted to apparel and clothing. There has been tremendous growth in India in imports of European undergarments in the past 3 years, both in volume and value terms. The share of Import from Europe has significantly risen from 44% in 2005-06 to 60% in 2007-08 by volume, and from 60% in 2005-06 to 70% in 2007-08 by value.



The European products are positioned in the premium and super-premium product segments. The price points of these products are normally much higher as compared to Indian products. There is a pent up consumer demand for fashion conscious rich Indian households.

A large number of European companies and brands have a significant presence in the Indian market, particularly in the premium and super premium segments, which are growing faster than the lower and mid priced segments.

Regulatory Framework and Legislations

Sector Specific Policies and Fiscal Initiatives by Govt. of India:

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.

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%.

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 facilitate access to institutional finance.

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'.

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.

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.

Export Fiscal Incentives and Concessions on Export-oriented Units

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.

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.

Sales in the domestic market attract a lower customs duty: that is half the normal tariffs applying to imports.



Foreign Direct Investment (FDI) Policy

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. Investment in any small scale enterprise (SSI unit¹) 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.

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 are allowed in all industrial sectors. The approval is automatic for agreements involving Lump sum fee not exceeding Euro 1.39 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 Euro 694.44 per day, subject to a ceiling of Euro 138,888 in a calendar year).

All intellectual property (Trade Marks, Patents etc) must remain the exclusive domain of the originator and only licensed to the joint venture / local agent.

Business Structure Options

A foreign company can set up operations in India by incorporating a company, which can be either Joint Ventures; or Wholly Owned Subsidiaries.

Foreign Companies can also set up their offices through unincorporated entities, which can undertake only the permitted business activities, namely Liaison Office/Representative Office, Project Office or a Branch Office.

¹ Small Scale industrial unit – defined as one where investment in plant & machinery is less than Euro 0.08 million



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

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.

Taxes and Tariffs

	Present rate
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%
Sales Tax / VAT (this is a turnover tax applying on sales, and varies state to state)	4 - 12.5%
Import duty (average)	24.42%
Excise Duty	
Apparels and Clothing	8%
Undergarments	10%
Home Furnishings and Accessories	8%



Marketing and Distribution Structure

Trade channels

There is a commonality of approach adopted by manufacturers / importers for marketing and distribution. Large manufacturers maintain a nationwide marketing set-up to achieve 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

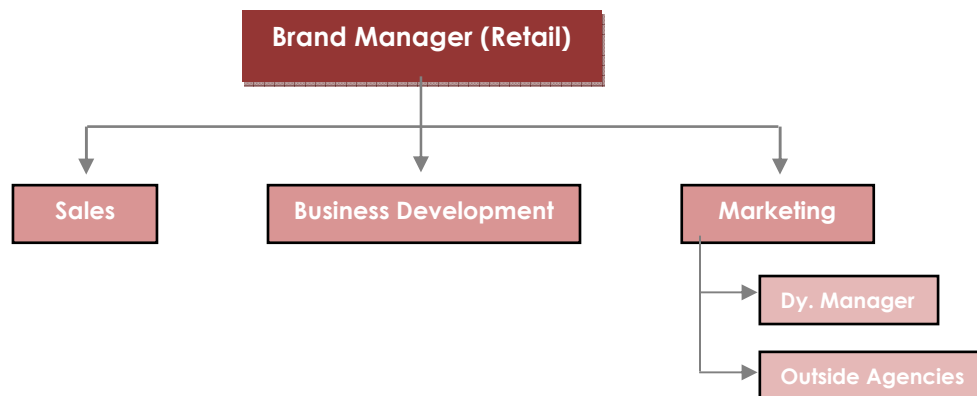
Production of company literature, brochures, related ad materials

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. A typical commonly used structure is as under:



Sales Network

The products are sold through a variety of channels.

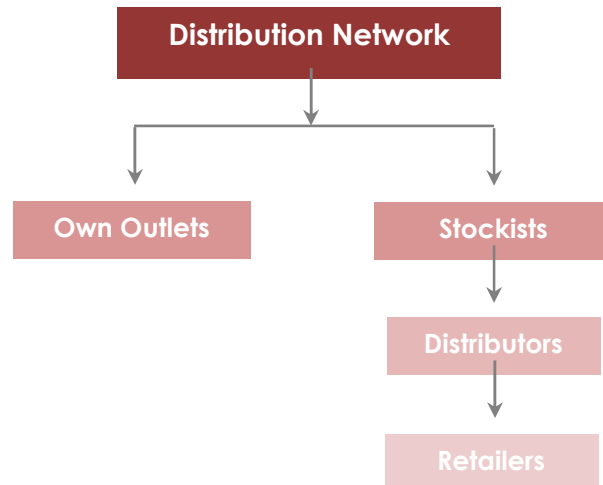
Exclusive company owned retail outlets, including increasing use of retail space in various malls for showcasing products and maximizing sales.

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 a joint venture collaboration or technology tie-up in India prefer this route. Major advantage of this system is that it does not require substantial investment. The onus for development of the market lies with the franchisees.

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:



Key trends in the Retail sector

Domestic consumption in India is estimated to grow at 7 to 8% with retail accounting for 60% of the overall segment. The share of organized retail is just 5-6%. However, the textile sector has grown noticeably in organized retail. The downturn in exports may have compelled the Indian textile industry to explore the opportunities in the domestic market substantially causing the outstanding growth in organized retail in the sector. It is expected to grow at 25-30 per cent annually, and is likely to 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%.



Trade Margins and Commercial terms

Terms of Credit

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.

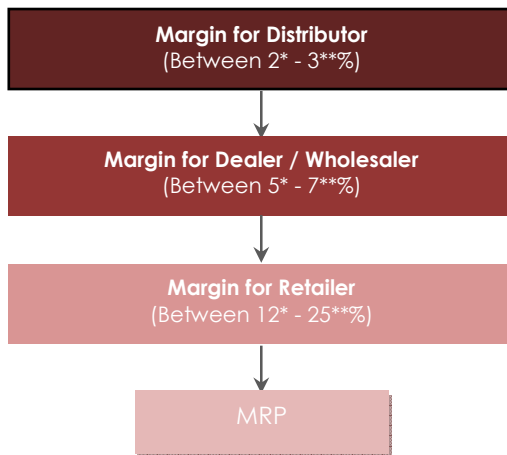
Minimum : 30 days credit
Maximum : 45 days credit

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.

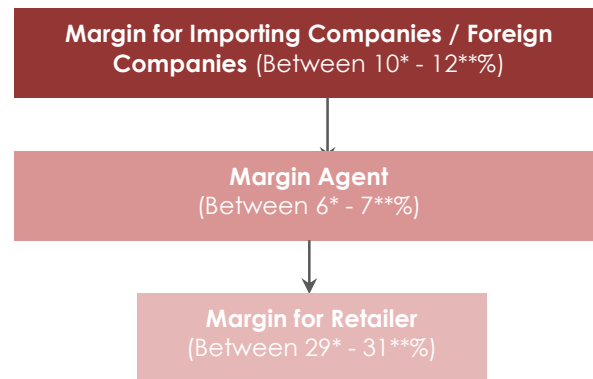
Trade Margins

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



Note: * Fast moving products
** Slow moving products



Opportunities for Italian companies to enter the Indian market

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 interests 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

Positive Experiences / Perceptions about Italian Products

A large number of Italian companies and brands have a presence in India and are therefore known to Indian manufacturers, retailers and users. 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



Import of 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.

The import of special woven fabrics, tufted textile fabrics, lace, tapestries, trimming and embroidery has been increasing from Italy over the years.

Import of Finished Products

The products imported show a steady growth from 3.74 million Euros in 2005-06 to 4.99 million Euros in 2006-07 and further to 8.10 million Euros in 2007-08. The imports during the past 9 months (April-December 2008-09) have already outperformed the preceding year.

The major European competitors of Italy which are exporting yarn and semi fabric into India are Germany, UK, Spain, Belgium and France. In addition, Asian countries, notably China, Korea, Japan, Thailand, Malaysia, Pakistan, and Bangladesh also pose competitive challenge for Italy.

Demand for Italian products

Indian fashion industry faces a huge gap especially for high fashion at affordable prices. Here European apparels in general and Italian products have a significant potential given the ready acceptance among Indian consumers.

The domestic market opportunity

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 >Euro 0.7 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.

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