

Ready Made Garments Sector Sector Risk Index

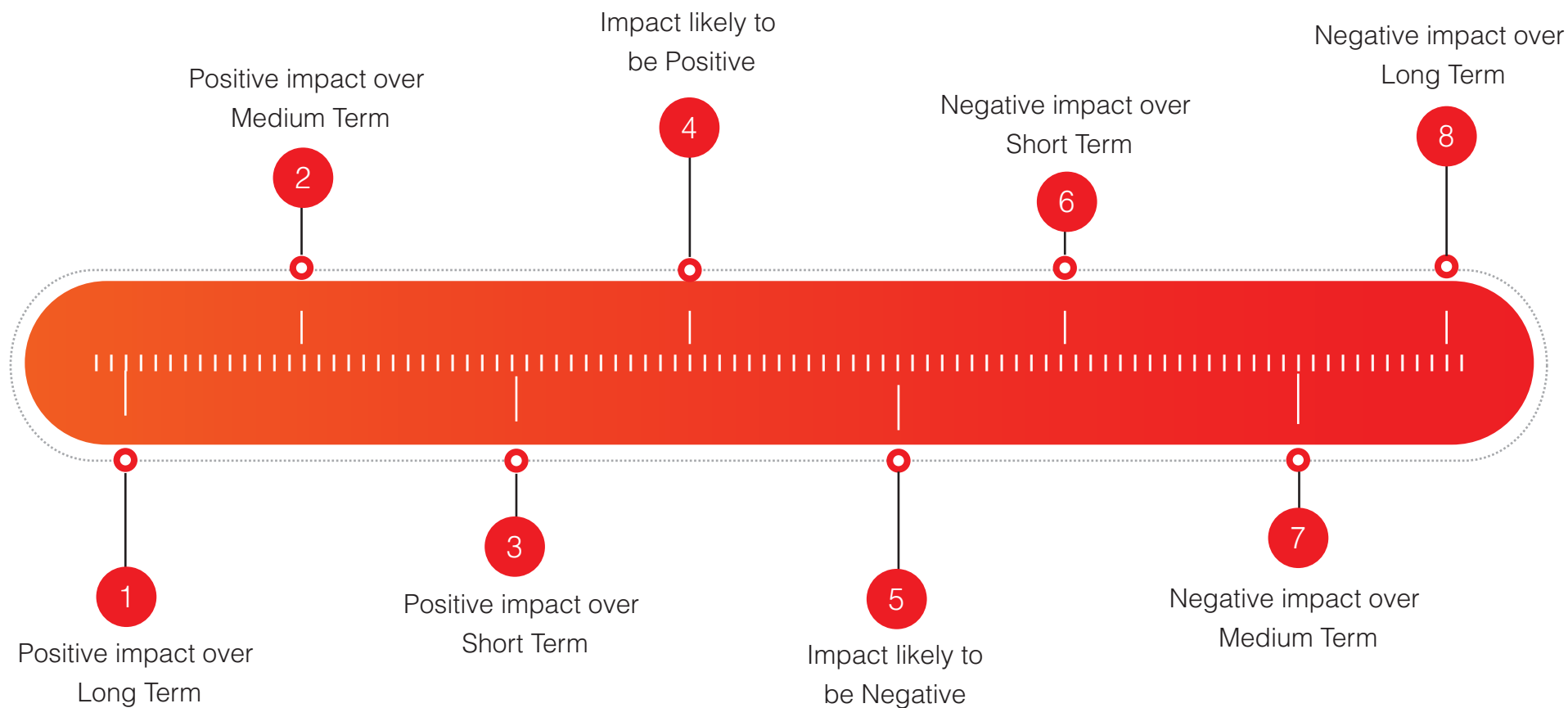
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Explanation of Sector Risk Index

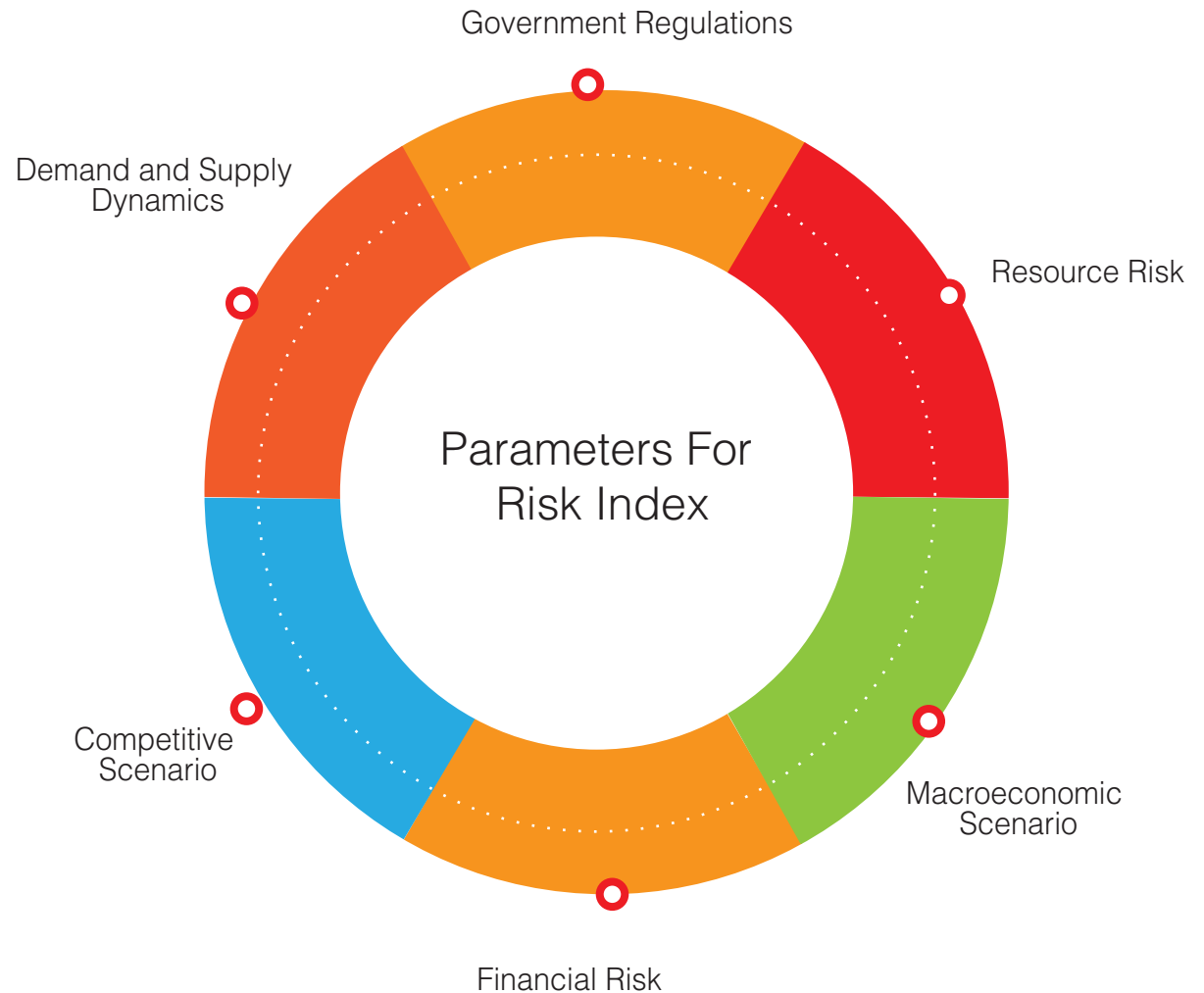
Sector Risk Index reflects the effect that various factors shall have on the business prospects and operating environment of a sector over the next 12 months. The risk index arrived at is an aggregate of the individual scores assigned to the relevant sector parameters-identified.

The scores have been graded on an 8 point scale with 1 indicating low risk and 8 indicating high risk.



Parameters for Risk Index

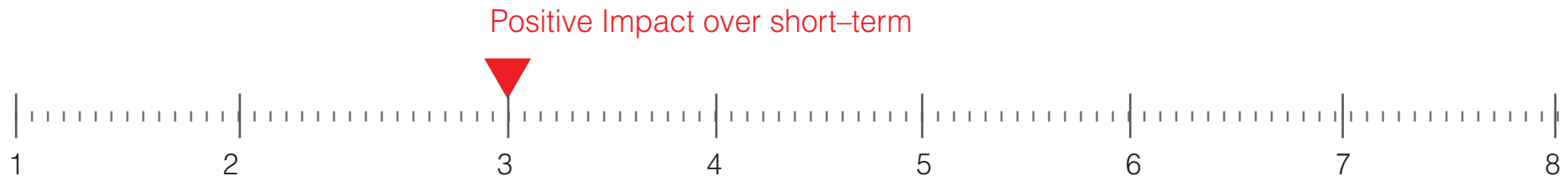
The selected parameters are government regulations, demand supply dynamics, competitive scenario, macro-economic variables, resource risk and profitability and cost structure. The scores given to individual parameters reflect the extent of positive/negative impact on the business operating environment.



India's Readymade garment sector is likely to grow by 9–11% during the period FY 2014–19 buoyed by increase in the demand from the USA and European market.



Risk Index of Ready Made Garments Sector



↑ Demand and Supply Dynamics

With favourable demographic conditions and improving economy, readymade garments sector is likely to grow by 9–11% during the period FY 2014–19.

↑ Macroeconomic Scenario

India's gross domestic product (GDP) has been growing at an average rate of approximately 6.33% during the period from FY 2011–12 to FY 2014–15

↔ Resource Risk

India is the second largest producer of cotton in the world. This provides Indian textile industry a competitive edge worldwide in terms of low cost of raw material

↑ Government Regulations

The Indian government has allowed 100% foreign direct investment (FDI) in the Indian textile sector under the automatic route.

↓ Competitive Scenario

The readymade garment sector is highly competitive and fragmented with large number of small-sized players available in the market.

↔ Financial Risk

Due to the presence of large number of players, margins are under pressure

Executive Summary

- 1** The total global apparel market is estimated at about USD 1264 billion in financial year 2014-15 (FY 2014-15) with India constituting approximately 4% of the global market size.
- 2** Readymade garments sector has grown at a compound annual growth rate (CAGR) of around 6–8% from FY 2008-09 to FY 2012-13 and is likely to grow by 9–11% during the period FY 2014–19.
- 3** The readymade garments sector in India is broadly divided into three segments – men’s wear, women’s wear and kids’ wears.
- 4** India is the sixth largest supplier of readymade garments in the world and is the second largest employment provider in the sector after agriculture in India. The industry also is the largest foreign exchange earner for the country.
- 5** The Indian readymade garments sector is facing stiff overseas competition from the neighbouring countries like Bangladesh, Pakistan and Sri Lanka.

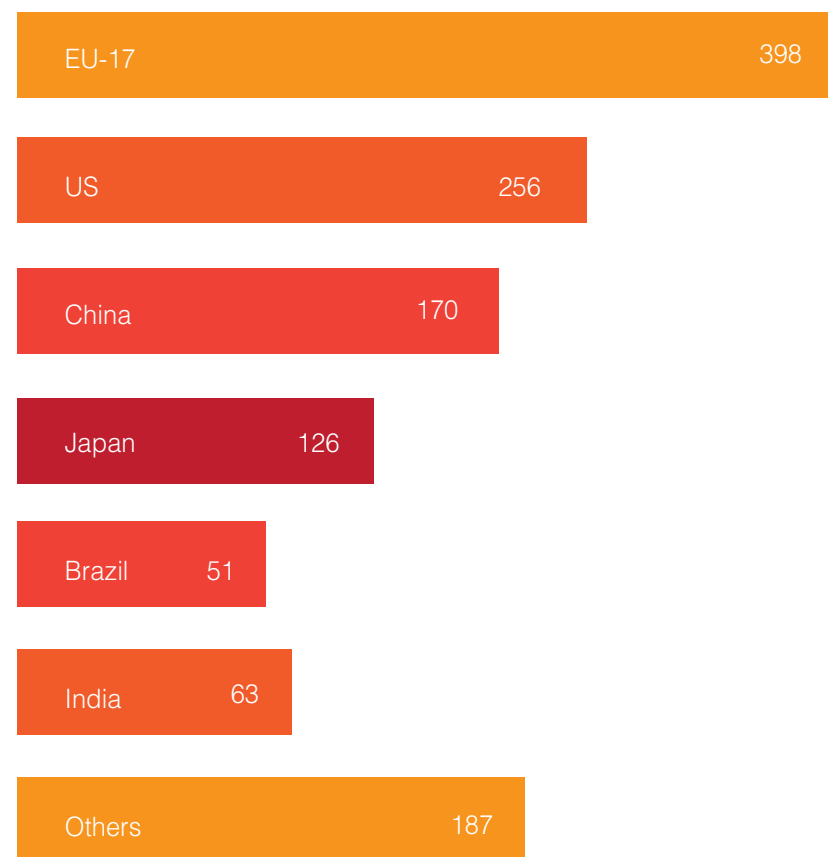
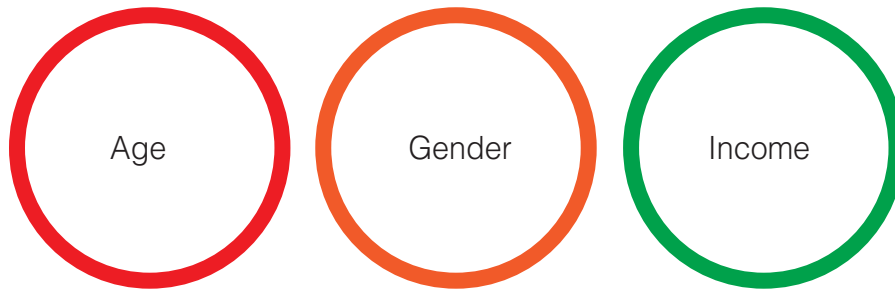


Figure 1. Global Market Size (USD Billion) FY 2014-15

Product Profile

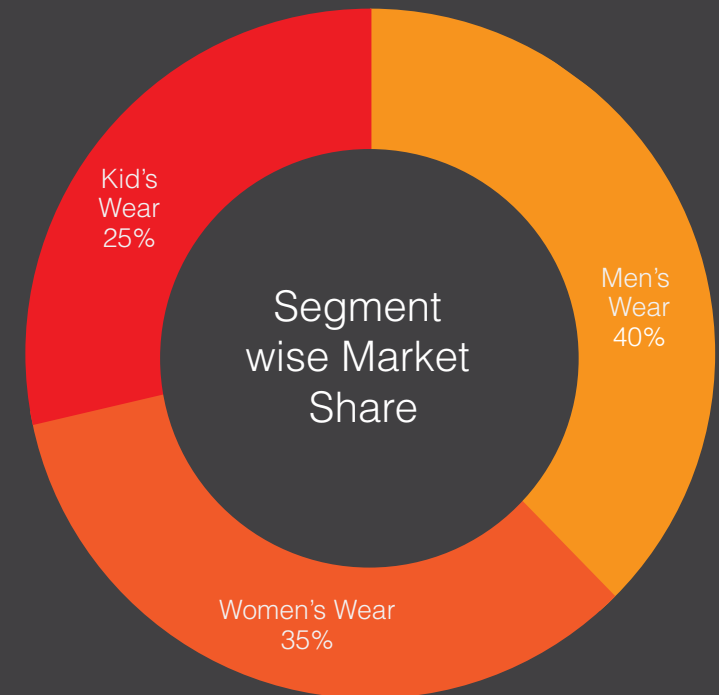
India's apparel market is governed by various factors such as:



Under the gender-based classification, a major portion of the market share comes from men's wear followed by women's wear and finally kids' wear. However, with the rise in the number of working women, women's wear is fast pacing with the men's wear market share.

New concepts such as 'plus size clothing', customised clothing, etc. are also taking shapes in readymade garment sector.

Figure 2. Segment wise Market Share

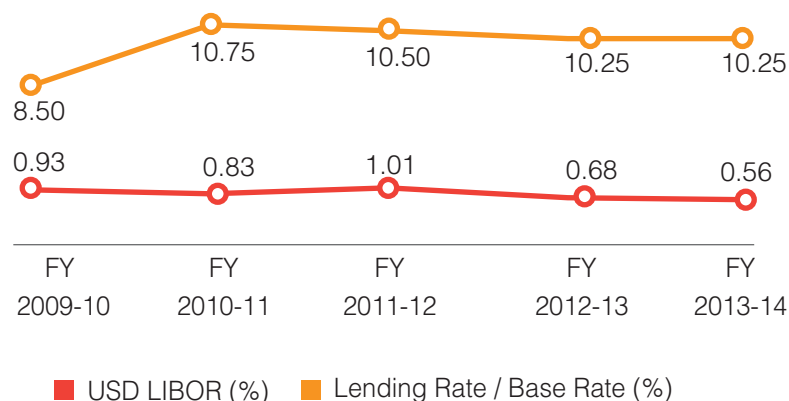


Macro Economic Analysis

Macro-Economic Growth

- 1 India's gross domestic product (GDP) has been growing at an average rate of approximately 6.33% during the period from FY 2011–12 to FY 2014–15 and has touched USD 2.05 trillion in financial year 2014–2015 (FY 2014–15).
- 2 Rising disposable income and changing consumer preferences has resulted in an increase in the demand of ready made garments.
- 3 Increasing retail penetration, growing service class and the increasing share of the designer wear have also been the drivers for growth.

Figure 3. Interest Rate Trends (Domestic and International)



Interest Rate Risk

- 1 Interest rates in the international markets have reached at the latest levels in the FY 2013-14 compared to the preceding five years since FY 2008-09. However, domestic lending rate has increased in the FY 2013-14 compared to FY 2012-13.
- 2 There has been an addition in the borrowing cost for the companies depending upon the Indian sources of funds and on the other side there has been a relief in the cost of foreign-borrowed funds.
- 3 An increase in the finance cost may create a pressure on the net profit margin and hence affecting the price competitiveness in the market.

Macro Economic Analysis

Interest Rate Risk

The debt-equity ratio of Readymade Garment Sector has been decreasing year-on-year (YoY) basis. The sector is considered as low capital intensive, hence requires limited amount of capital for setting-up and starting production.

Figure 4. Interest Rate Risk

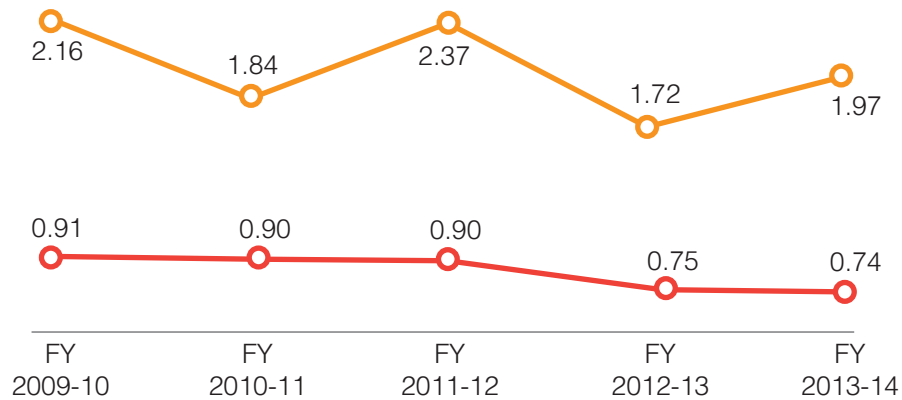
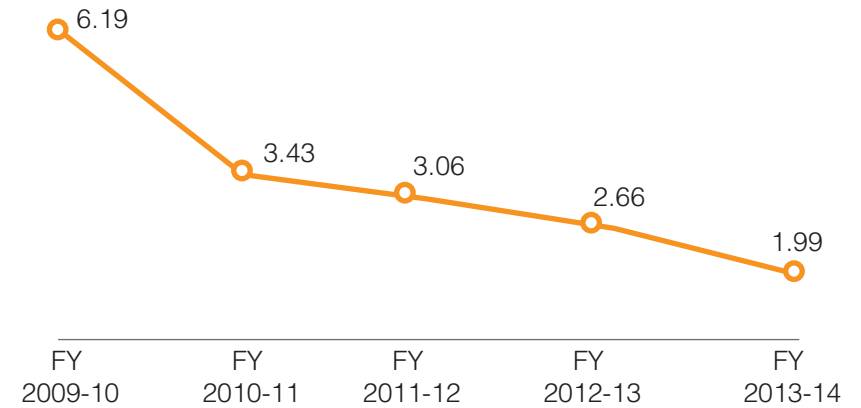


Figure 5. Interest Payment as a % of Sales



■ Interest Coverage Ratio (Times) ■ Debt-Equity Ratio (Times)

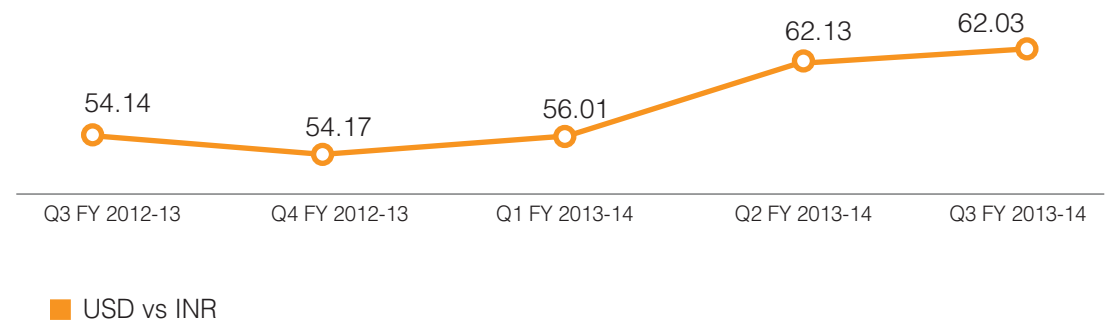


Macro Economic Analysis

Foreign Exchange Risk

- 1** The readymade garment sector, being an export-oriented sector, is a source of foreign currency. The appreciation in the value of Indian national rupee (INR) against global currencies may only increase the foreign exchange risk for the companies in the sector.
- 2** Import of readymade garments is low in India, hence the low impact of foreign exchange risk on the sector.
- 3** Due to further strengthening in the US and Eurozone GDP growth rates in FY 2014-15, US dollar is expected to strengthen against other currencies.

Figure 6. Foreign Exchange Rate Movement



Government Regulations

Duty Structure

For readymade garments, excise duty was zero in FY 2012-13 and was retained at zero in FY 2013-14.

Both the raw material (yarn or fabric) and finished products are subject to zero excise duty.

The basic customs duty on readymade garments remains to be 10% and countervailing duties (CVD) and special CVD remain to be 12% and 4%, respectively, in FY 2013-14, basic customs duty on reformate (feedstock for polyester) is lowered to 2.5% from 10% though.



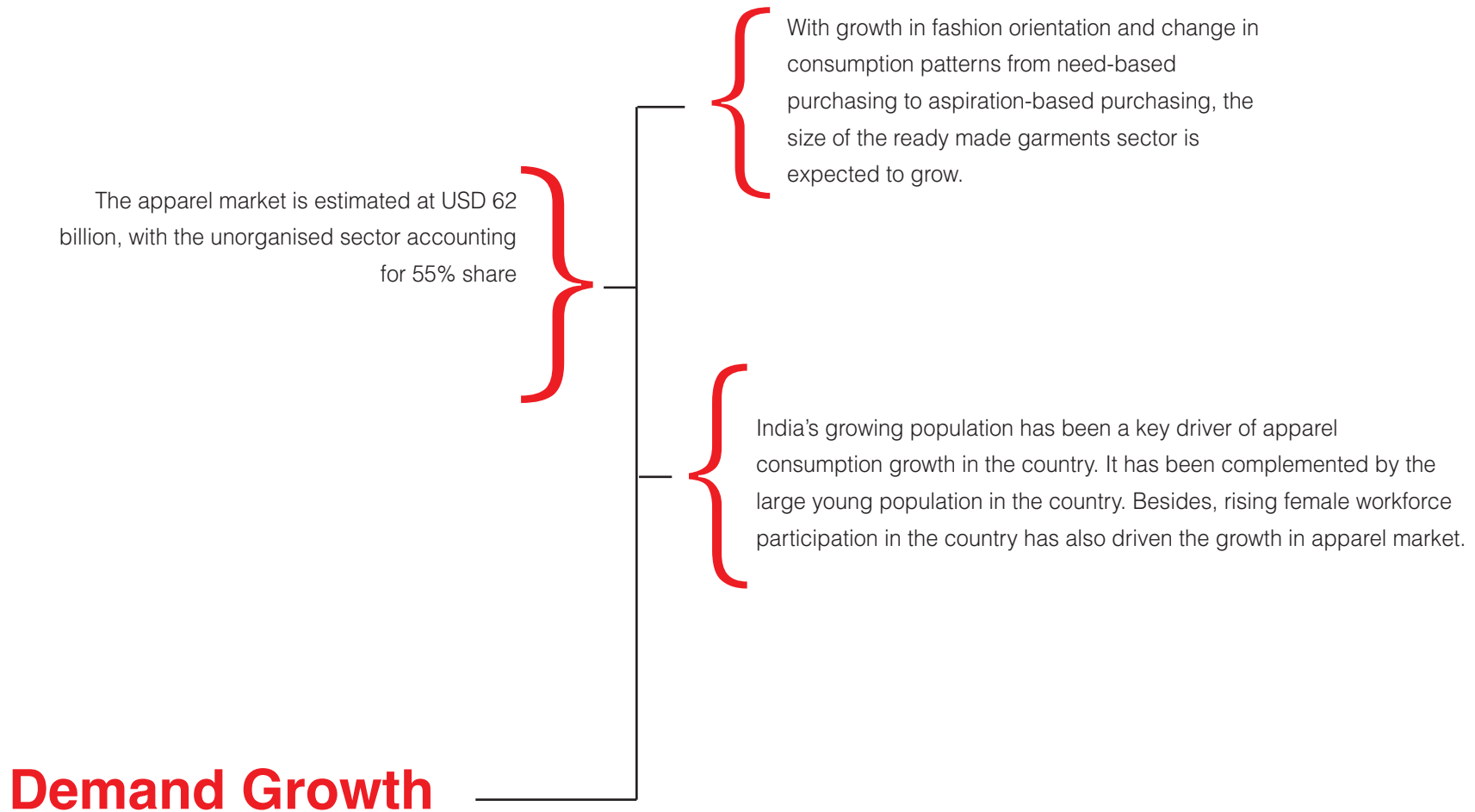
Government Regulations

Government Initiatives

- 1** The Indian government has come up with a number of export promotion policies for the textiles sector. It has allowed 100% foreign direct investment (FDI) in the Indian textile sector under the automatic route.
- 2** Allocation of INR 2,000 million towards the proposed setting up of mega textile clusters at Bareilly, Lucknow, Surat, Kutch, Bhagalpur and Mysore and one in Tamil Nadu.
- 3** To promote apparel exports, 12 locations have been approved by the government to set up apparel parks.
- 4** There is a reduction in standard tax such as zero excise duty on cotton and man-made yarn, fabric and garment.
- 5** To improve technical skills in apparel industry, government has established 75 training and design centers across India.
- 6** 100 per cent FDI (automatic route) is allowed in the Indian textile sector



Demand Supply Dynamics

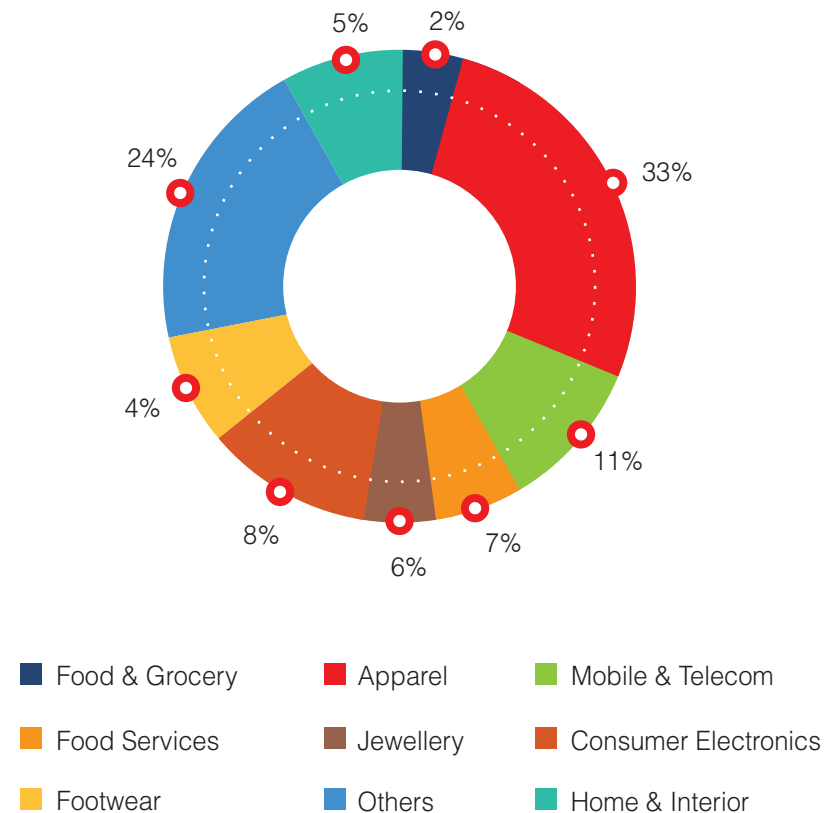


Demand Supply Dynamics

Demand Drivers

- 1** Growth in organised retail: India's retail market is likely to touch a whopping USD 738.71 billion by FY 2016-17, expanding at a CAGR of 15%.
- 2** The Indian online retail market has been growing over the past few years and a large number of players have entered in this segment of retailing. The trend is expected to continue as the online retail market in India is estimated to touch the mark of USD 13.92 billion by FY 2018-19.
- 3** Abundant availability of raw materials and skilled manpower at lower cost has also complemented the growth of readymade garment sector. The sector has also witnessed increasing outsourcing over the years as Indian players moved up the value chain from being mere converters to vendor partners of global retail giants.
- 4**

Figure 7. Share of Different Retail Verticals in Organised Retail



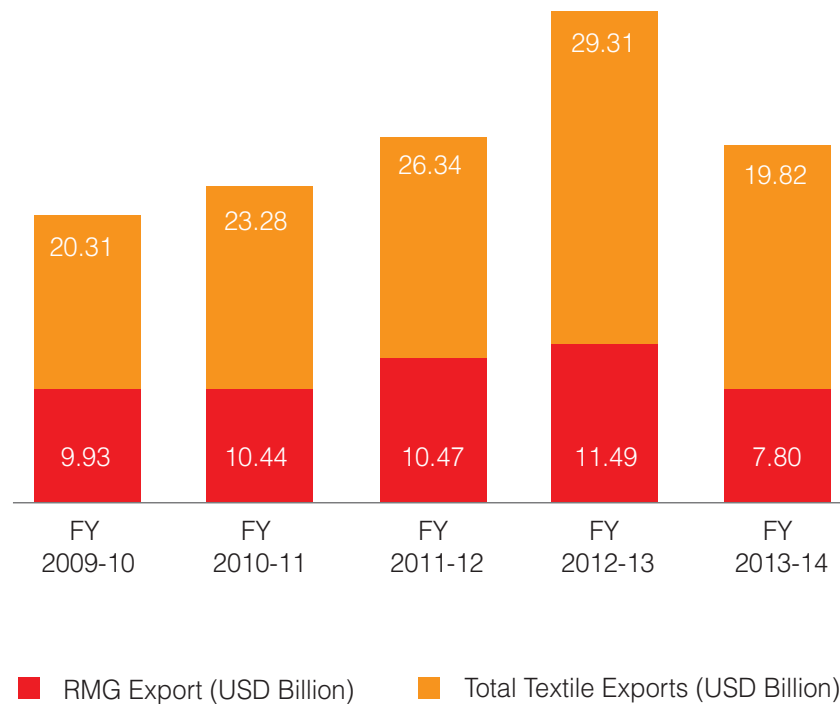
Source: IBEF

Demand Supply Dynamics

Import Export Trend

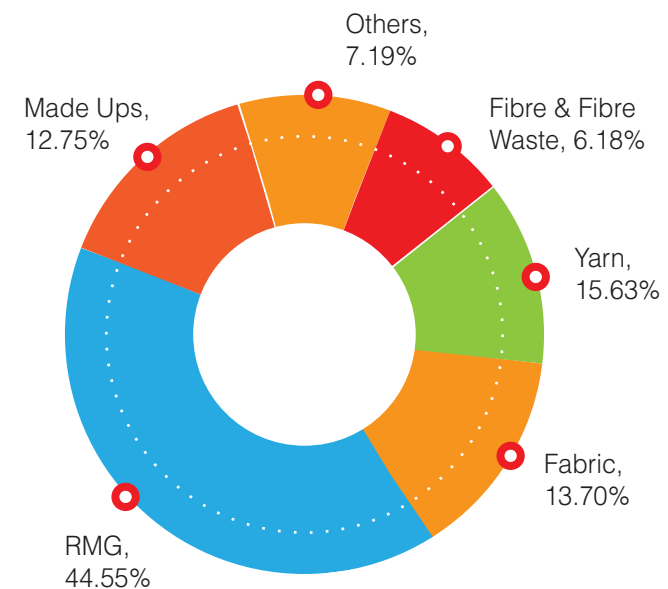
Over the years there has been a continuous growth in textile export and readymade garments (RMG) industry contributes to approximately 4% of India total exports and 45% of the total textile exports. The weakness in the rupee has also contributed to increased demand of readymade garments followed by cost effective labour resources and favourable government policies.

Figure 8. India's Export Trend



Source: Ministry of Textile

Figure 9. Segment Wise Export Contribution

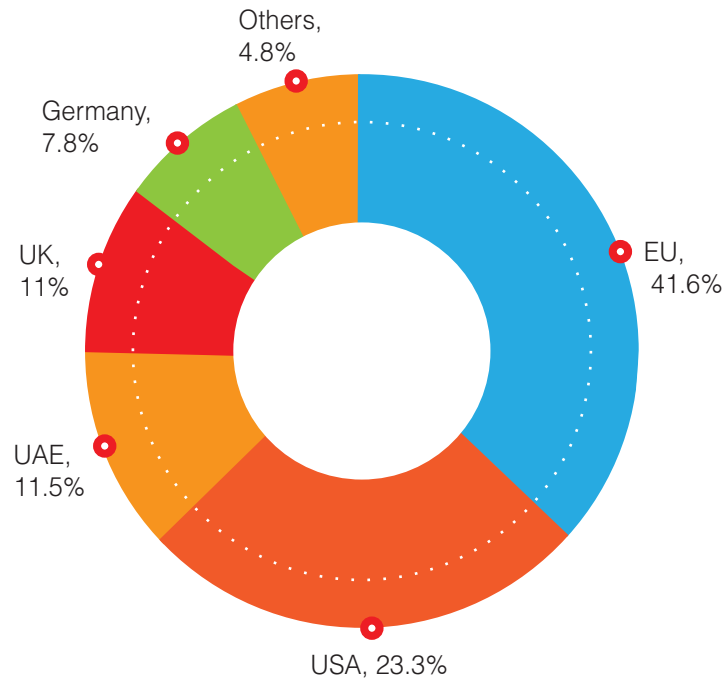


Demand Supply Dynamics

Import Export Trend

India is a leading exporter of readymade garments with major destination being EU, followed by USA and UAE.

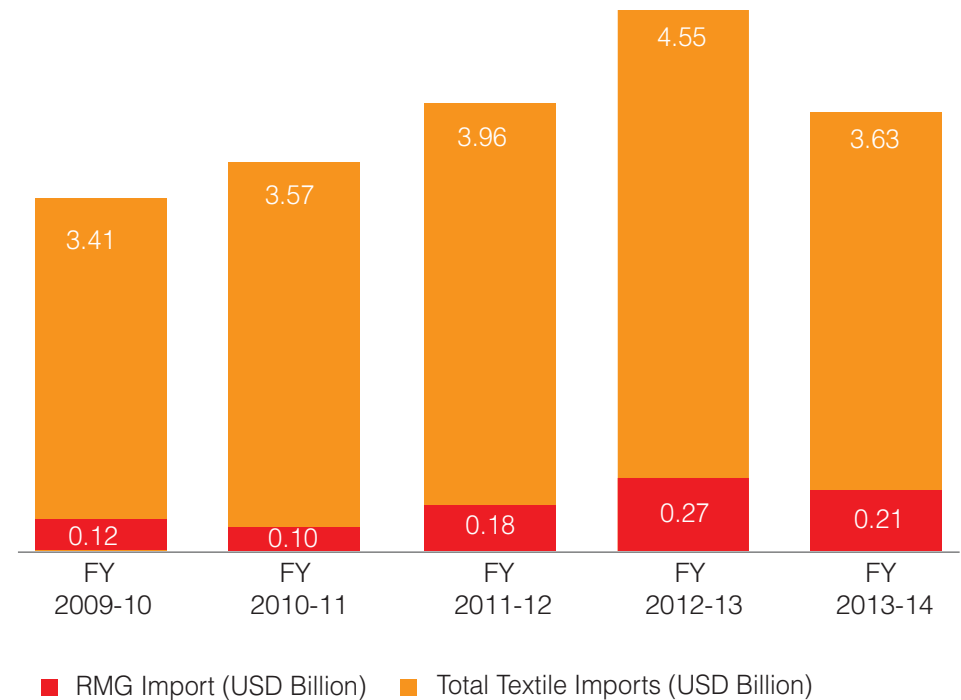
Figure 10. Country wise India's RMG Export



Source: Ministry of Textile

India is a net exporter in textile industry and imports around 5–6% of readymade garments. Top importing countries are China, USA, Bangladesh and Taiwan, which contribute to approximately 55% of the total textile imports.

Figure 11. Import Trend



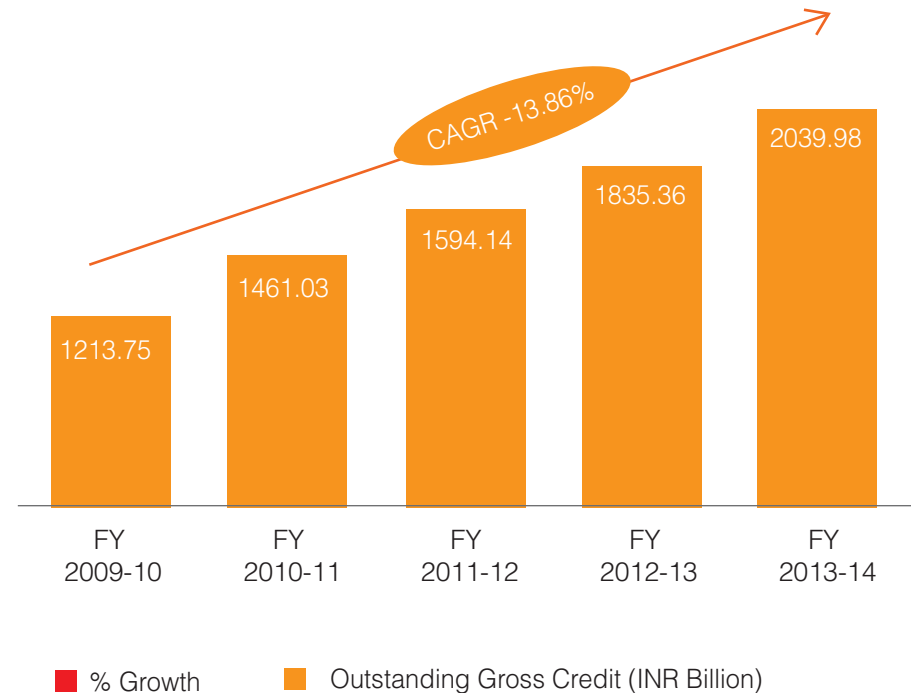
Demand Supply Dynamics

Growth in Gross Credit Deployment

Textile industry in India is the third biggest recipient of bank loans after infrastructure and basic metals and metal alloys.

The deployment of outstanding Gross Bank Credit has increased by CAGR of 13.86% from FY 2009-10 to FY 2013-14. The industry has seen substantial investments over a long period of time in terms of new projects and taking loan from banks and other financial institutions for completion of projects.

Figure 12. Gross Bank Credit Deployment



Source: Reserve Bank of India



Recent announcements in the sector

Arvind Lifestyle Brands plans to foray into the children's wear retail segment in India, as it has signed a franchisee agreement worth INR 61 billion with US-based The Children's Place.

KPR Mill Limited planning to invest INR 550 million in setting up a garment manufacturing facility at Tirupur, Tamil Nadu. On completion by March 2015, the facility will have a capacity to manufacture 12 million units of garments per annum.

Sangam India plans to venture into the seamless garment segment with an investment of INR1.20 billion. The company plans to set up 10,000 spindles for slub yarn and a mercerise unit, besides modernising the processing division.

Competitive Scenario

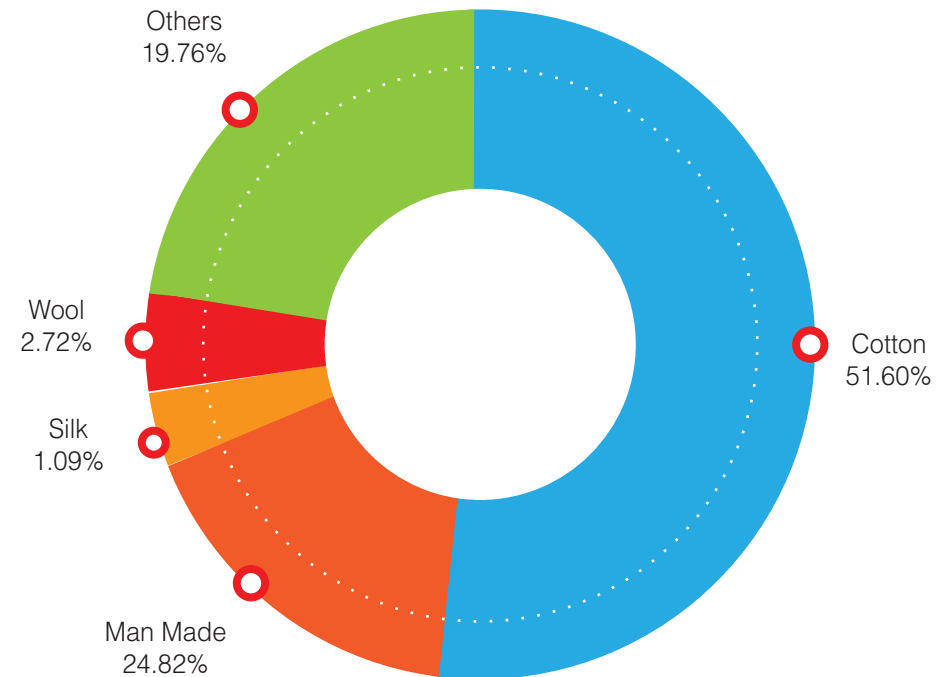
- 1** The readymade garment sector is highly competitive and fragmented with large number of small-sized players available in the market.
- 2** The competition is further fuelled by the presence of large number of substitutable products available in the market with different designs and at different prices.
- 3** Indian garment exporters have to face competition from neighbouring countries for export of readymade garments. This is largely attributable to zero duty access to European Union (EU) available to Bangladesh, difference in wage rates, labour laws, etc.
- 4** Apparel manufacturing being the least capital intensive section of the textile value chain is characterized by low entry barriers, hence is highly fragmented. It is also highly labour-intensive and requires skilled, unskilled and semi-skilled labourers.



Resource Risk

- 1** India enjoys a comparative advantage in terms of availability of raw materials such as cotton, wool silk, jute, etc.
- 2** Cotton yarn has been the main contributor, approximately 51.60%, towards the total yarn produced in the country, while man-made yarns has been contributing around 24.82%, Wool around 2.72% and silk 1.09%.
- 3** India being the second largest producer in the world is self-sufficient in cotton. This provides Indian textile industry a competitive edge worldwide in terms of low cost of raw material.

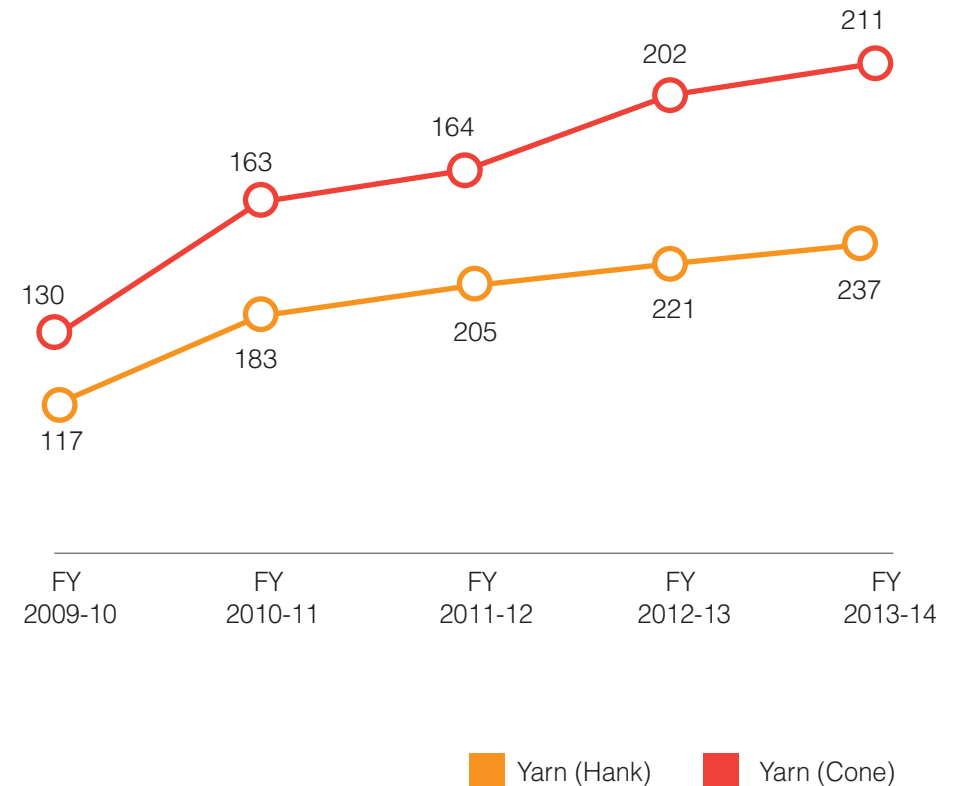
Figure 13. RMG Export Classification



Resource Risk

- 1** Weighted average cotton (hank) yarn realisations improved 7% YoY to INR 237/kg in FY 2013-14.
- 2** Growing yarn volumes were driven by improving capacity use, benefits accruing from an increase in scale from capital expenditure (capex), etc.
- 3** Availability of Skilled manpower and low cost of production relative to major textile producers also acts as an advantage for India

Figure 14. Cotton Yarn Price Movement (INR/ Kg)

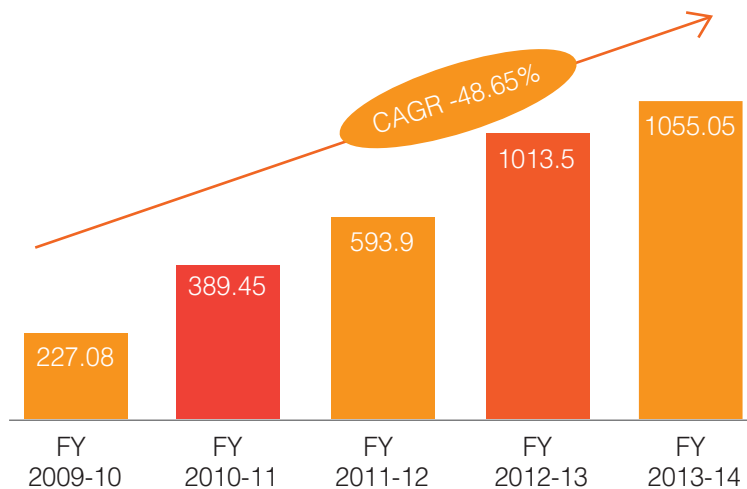


Source: Ministry of Textile

Financial Risk

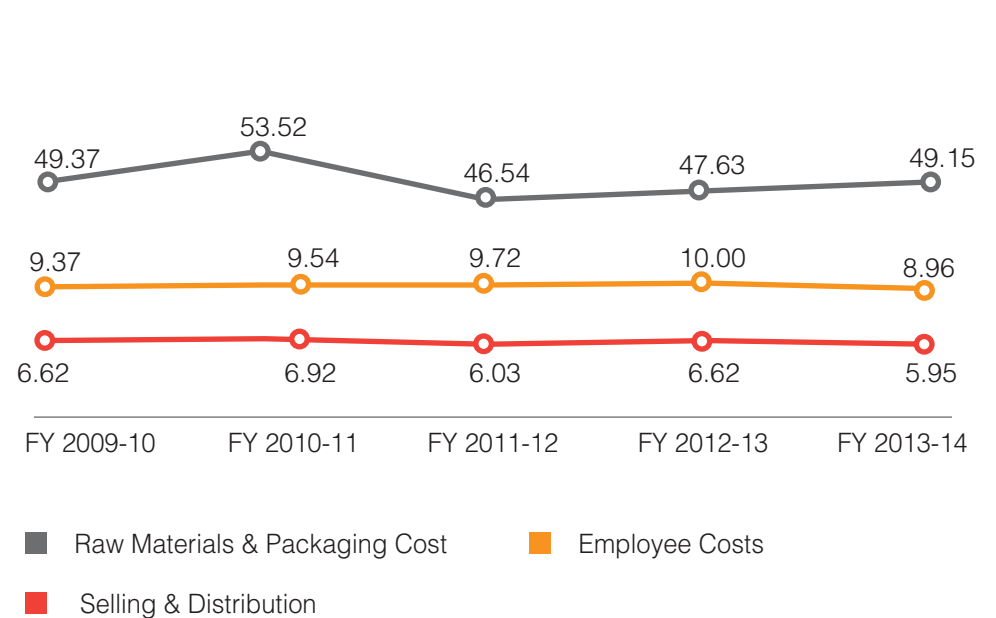
- 1 The net sales of readymade garment sector have grown with a CAGR of approximately 48.65% during the period FY 2009–14. With growing demand in the domestic as well as export market, turnover of the sector has grown.
- 2 The raw material cost as a percentage of sales has remained stable over the last 3 years with not much fluctuations. On the other side, the employee cost has increased till FY 2012-13 but declined in FY 2013-14. The selling and distribution expense has decreased from 6.62% in the FY 2012-13 to 5.95% in the FY 2013-14.

Figure 15. Sales Trend (In INR Million)



Source: CMIE Prowess

Figure 16. Cost Structure (%)



Financial Risk

Key Indicators	Unit	FY 2013-14
EBITDA Margin	%	9.42
Net Profit Margin	%	2.08
Return on Capital Employed	%	4.99
Return on Equity	%	7.11
Current Ratio	Times	1.28
Quick Ratio	Times	0.66
Debtor Days	Days	51
Payable Days	Days	54
Inventory Days	Days	95
Interest Coverage Ratio	Times	1.96
Total outside liabilities/ Total Net worth	Times	0.96
Sales to Capital Employed	Times	1.65
Debt-Equity Ratio	Times	0.58
Asset Turnover	Times	1.28

Source: CMIE Prowess

Sample Set : 24 Companies



Key Contacts

Vishnu Ramachandran

Senior Vice President

Contact No. : +91- 124-4125487

Manish Goyal

General Manager

Contact No. : +91-124-4125707

Shalu Malaviya

Deputy Manager

Contact No. : +91-124-4125732

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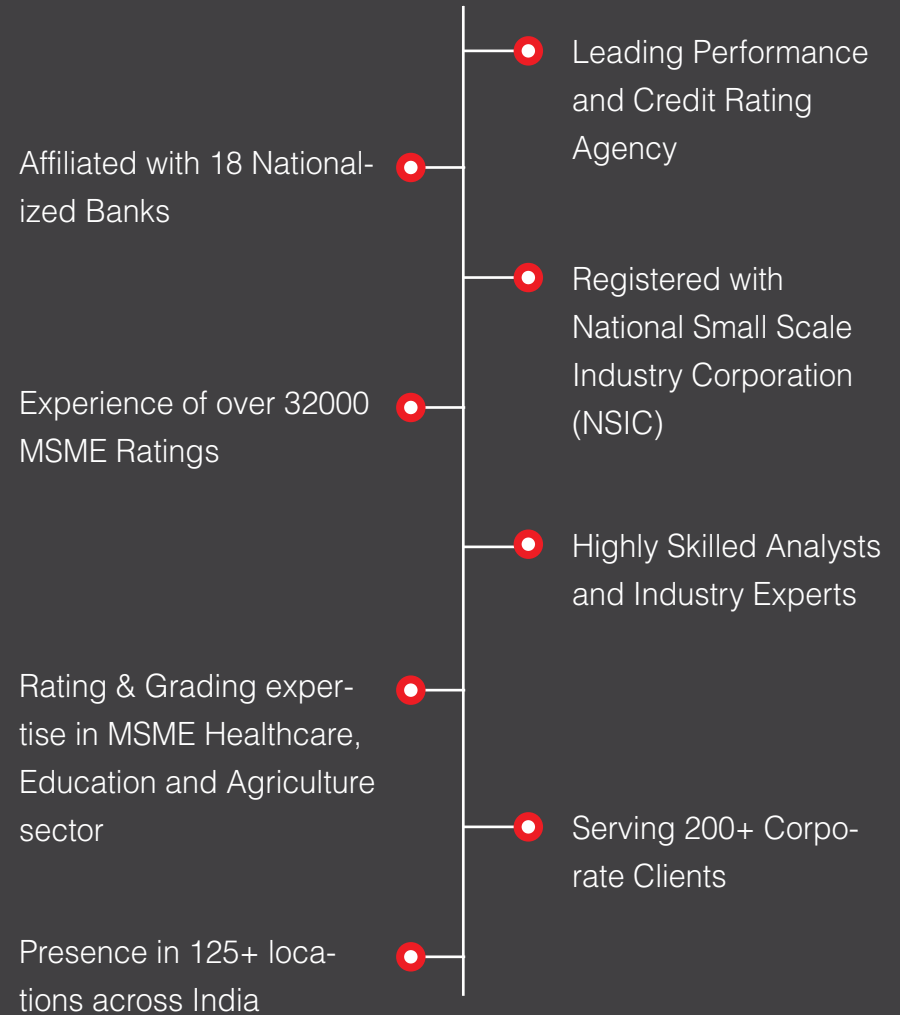
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Our Offices

HARYANA

Gurgaon Corporate & Rating office
Building No. 21-22, 5thFloor Udyog Vihar
Phase-IV,
Gurgaon-122015,India

MAHARASHTRA

Mumbai
520, 5th Floor Nirmal Corporate Centre,
Nirmal Life Style, LBS Marg, Mulund
(West) Mumbai – 400080 India

WEST BENGAL

Kolkata
3 D & F, 3rd Floor, Jindal Tower
Block – A, 21/1A/3, Darga
Kolkata - 700017 India

UTTAR PRADESH

Noida
B10, Sector – 59
Noida – 201301 India

Lucknow
239 Tej Kumar Plaza, Hazratganj ,
Lucknow – 226001, India

KARNATAKA

Bengaluru
N-705, 7th Floor, North Block,
Manipal
Centre 47, Dickenson Road
Bengaluru – 560042 India

TELANGANA

Hyderabad
7-1-28/12/1, 4th Floor, Serenity
Plaza,Shyam Karan Road, Near
Andhra bank,Ameerpet Branch,
Hyderabad-500016
India

GUJARAT

Ahmedabad
603, Aniket, Above Metro Showroom,
Opp. Jain Derasar, CG Road, Navrang
Pura, Ahmedabad-380009 India

TAMIL NADU

Chennai
25, Ranganathan Garden, Ground Floor,
15th Main Road, Annagar West,
Chennai-600040 India