



COVID-19: Mitigation strategy for Indian textile and apparel sector



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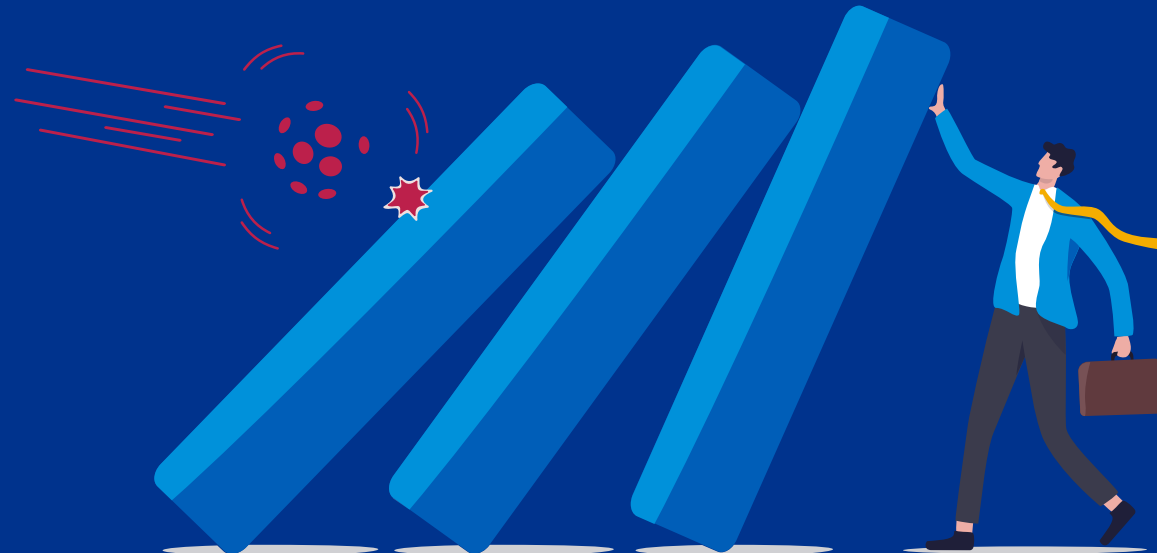
May 2020

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Context

Even prior to this crisis, fashion retail markets across the world were already under severe stress due to deep discounting, damp consumer sentiments and cheaper products flooding the markets. The onset of the COVID-19 pandemic has further pushed the industry to brink with production lockdowns, severe supply chain disruptions and market closures across both small and large economies. This

report is an attempt to quantitatively and qualitatively analyse the impact of the COVID-19 pandemic on global fashion markets and its cascading effect on the Indian Textile and Apparel Sector. The report also attempts to predict disruption timeframes from this pandemic.



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Textiles and apparel sector – Global markets and sourcing destinations

The textiles and apparel sector has been a key contributor to industrialisation across developing economies in South and Southeast Asia and is now playing a similar role in African economies that are adopting textiles as a growth driver. China and India are major raw material suppliers to all the key textiles and apparel manufacturing hubs across the world and are thus indirectly influencing, to various degrees, the overall industrial growth of these economies.

The developed world has predominantly been the largest retail market for end products (apparel, home textiles and technical textiles) with very high import dependence from key

global sourcing hubs based in Southeast Asia. The above factors, coupled with the highly labour-intensive work — estimated textiles jobs per USD 1 million investment are 80-90 and estimated apparel jobs per USD 1 million investment are 500-520¹ — has made this sector among the largest employers for unskilled and semi-skilled labour at key manufacturing hubs.

The textiles and apparel sector is among the oldest in India dating back several centuries. The country has a robust end-to-end textile and apparel value chain covering fibre to retail. The sector accounts for around 2 per cent of India's GDP² and around 13 per cent of

India's export earnings³. It is a significant employer with an estimated 45 million direct labour workforce and 60 million workforce in allied sectors⁴.

India is the world's largest cotton producer and the second largest synthetic fibre producer. In addition, the country is the second largest textile and apparel producer accounting for USD 36 billion⁵ of exports, with increasing raw material exports over the years.



1. Textiles Ministry Estimate
2. Annual Report 2018-19, Ministry of Textiles, Government of India
3. Annual Report 2018-19, Ministry of Textiles, Government of India
4. Annual Report 2018-19, Ministry of Textiles, Government of India
5. ITC Trademap



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A) Analysing the impact on global supply chain

To study the demand side of the global fashion retail industry, KPMG in India has identified the top ten apparel-importing economies that account for around 57 per cent of the global apparel imports (2019)⁶. Alongside we have looked at their dependence on apparel imports from the top five sourcing destinations that account for approximately 50 per cent of the global apparel exports (2019)⁷. In addition, we have covered the ripple effects across the textile value chain of these key sourcing destinations. We then considered the following three factors to arrive at the impact of this pandemic on global demand:

a) The effect of the pandemic on populations (coronavirus

penetration) and the impact of the lockdown in these countries. As these two factors are prime drivers of the current stress and global supply chain disruption, we have given 60 per cent weightage to these two factors combined. Unless the markets are revived, which depends on slowing down of the infection spread, we cannot expect revival in global fashion industry.

b) A country's economic health is key to its ability to absorb such impact. Thus, for the revival timeline, we have factored in the average annual GDP growth rate for the period of 2016 to 2019 and given 20 per cent weightage for economic robustness.

c) Considering the extent of economic standstill this pandemic has forced across the globe, we have considered impact of economic stimulus packages announced by these economies as a percentage of their GDP (PPP, 2019) and given 20 per cent weightage for offsetting economic impact of the pandemic.

The final rating for each country shall indicate the ability of the country to offset the negative impact of COVID-19 on fashion retail, which is the most significant growth driver for the global textiles and apparel sector.



6. ITC Trademap

7. ITC Trademap (Excluding re-exports from some markets)



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B. Impact on Indian textiles and apparel value chain

India is the second largest manufacturing hub in the global textiles landscape⁸ and the fourth largest apparel exporter⁹. In addition, India is among the fastest growing retail markets in the world. These factors have resulted in a highly complex industrial ecosystem in India with a cascading effect across the different components of the value chain impacting millions of livelihoods.

At a broad level, we have considered components that have direct impact on the textile value chain such as raw material availability, labour intensity, working capital requirement, import dependence, exports and the domestic market. Based on our industry interactions and opinions from subject-matter experts, we have derived the overall impact across each value chain component.

With significant market contraction at the global level and subdued domestic demand, the Indian textiles and apparel sector is expected to contract significantly over the next nine to twelve months.



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8. Ministry of Textiles, Government of India

9. ITC Trademap (Excluding re-exports from some markets)

Impact assessment on global textile and apparel sector



Key markets (import destinations)*
(Apparel Imports - 2019)

Global apparel trade (2019) USD 488 Bn	Covid-19 impact - Global supply chain					COVID-19 impact assessment - Market side (Scale of 1-5 with 1 reflecting low impact (good) and 5 reflecting high impact (bad))					Overall impact
	Key manufacturing countries**					30%	30%	20%	20%	Final score	
	China (USD 138 Bn)	Bangladesh (USD 40 Bn)	Vietnam (USD 33 Bn)	India (USD 17 Bn)	Turkey (USD 16 Bn)	Corona virus penetration ^	Lockdown Impact***	Avg. GDP growth (2015-19)	Government stimulus to GDP (2019 PPP)		
U.S. (USD 87.5 Bn)	30%	3%	16%	5%	1%	5	5	2	3	4	Approximately 1/5 of Global Apparel Trade to be significantly impacted, thus creating global supply chain disruptions
Germany (USD 38.9 Bn)	23%	16%	4%	4%	9%	3	2	3	3	2.7	Largest European Market is expected to revive in the next 9-12 Months
Japan (USD 28.0 Bn)	57%	4%	15%	1%	-	1	4	4	2	2.7	Impact on Japanese market is medium and market is expected to revive in 9-12 Months
U.K. (USD 24.9 Bn)	19%	15%	3%	6%	7%	4	1	3	2	2.5	Impact of Brexit coupled with COVID-19 would have long-term ramifications for UK and key sourcing destinations, although good economic stimulus shall help in reducing the impact to some extent
France (USD 23.9 Bn)	26%	13%	5%	5%	6%	4	2	3	1	2.6	Medium impact in Market and revival expected in 9-12 Months, owing to good economic stimulus from the Government
Spain (USD 20.0 Bn)	16%	14%	2%	4%	13%	5	2	2	4	3.3	With severe COVID-19 impact, Spain is expected to bear the brunt for 12-15 months
Netherlands (USD 18.1 Bn)	16%	9%	2%	2%	3%	3	4	2	5	3.5	With restrained lockdown measures, extent of market impact and revival might get delayed, if COVID-19 persists
Italy (USD 16.9 Bn)	21%	14%	3%	3%	7%	4	3	4	1	3.1	Italy is among the worst hit European economies and market revival is expected to take 12-15 months, despite strong economic stimulus from Government
Canada (USD 10.1 Bn)	35%	13%	11%	3%	1%	3	2	3	4	2.9	With medium impact, Canada is expected to revive in the next 9-12 months
Belgium (USD 9.2 Bn)	17%	9%	4%	2%	4%	5	2	3	3	3.3	High penetration of COVID-19 and limited financial stimulus may lead to delayed revival

Top 10 markets account for 57% of global trade

** Top 5 sourcing destinations account for ~50% of global trade

^ Based on COVID-19 positive cases per million population

*** Based on extent of lockdown measures with complete lockdown resulting in lower impact in long term

Source: ITC Trademap; World Bank; John Hopkins University COVID-19 Tracker (Dated: 11 May 2020)

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Impact assessment on the Indian textiles and apparel sector(1/2)



	Cotton fibre	MMF fibre	Yarn	Processing
Impact on India's exports	Global market contraction and order cancellations to severely affect demand for Cotton Fibre ●	With limited exports overall impact is expected to be low ●	With USD 6.2 Bn exports, global market contraction to significantly impact yarn exports ●	With limited exports overall impact is expected to be low ●
Impact on domestic market	With no downstream production, demand is virtually non-existent ●	With subdued market, demand is expected to reduce ●	With fabric manufacturing slowing down, yarn requirement is drying up ●	With limited raw material, operations to be significantly impacted ●
Labor intensity	High intensity ●	Low intensity ●	Medium intensity ●	Medium intensity ●
Import dependence	Negligible imports of specialized cotton fibre ●	Dependency for high-value added/functional fibres ●	With limited imports overall impact is expected to be low ●	Dependency for chemicals and other raw materials ●
Raw material availability	Cotton harvesting season is yet to arrive ●	Supply chain disruptions in PTA Imports ●	With significant supply chain disruptions, raw material availability is a challenge ●	Supply chain disruptions in raw material supply ●
Working capital requirement	Liquidity woes resulting in working capital shortages ●	With value chain downstream severely effected, working capital is severely impacted ●	With value chain downstream adversely affected, working capital is severely impacted due to inventory build up ●	Not as capital intensive and labor intensive as other components of value chain ●
Overall impact	Considerable contraction in global and Indian market to reduce demand significantly	As India focuses on natural fibre and global market is driven by synthetics, we expect significant global impact with ramifications for indian value chain	Yarn accounts for 17% of India's T&A exports. With significant order cancellations in end-product, the sector is expected to contract significantly	With significant dependency on import for raw materials, the segment is expected to be impacted in the short term

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Source: ITC Trademap; Industry Interactions; KPMG Analysis

● - High ● - Medium ● - Low



Impact assessment on the Indian textiles and apparel sector(2/2)



	Fabric	Apparel and made-ups	Technical textiles
Impact on India's exports	With 95% consumption in domestic market, limited impact on exports ●	Large scale order cancellations and supply chain disruptions to severely impact apparel and made-ups exports ●	With world economy slowing down, technical textiles exports to shrink considerably ●
Impact on domestic market	Demand to be significantly impacted due to apparel market contraction for both domestic and exports markets ●	Discretionary nature of products with significant market contraction to impact manufacturing of apparel and made-ups ●	With dependency on major industries, domestic market to be severely hit ●
Labor intensity	High intensity ●	High intensity ●	Medium intensity ●
Import dependence	Dependency for specialized/ functional fabrics ●	Considerable dependence on imports for trims/accessories ●	Significant dependence on raw material imports for value added products ●
Raw material availability	With yarn processing stopped, raw material availability is a challenge in medium term ●	Sufficient indigenous raw material availability, except few fabrics, trims/accessories ●	Shortage of raw materials due to supply chain disruptions ●
Working capital requirement	With 96% decentralized manufacturing, severe working capital issues ●	With large scale order cancellations and inventory pile-up and highly labor intensive industry resulting in critical working capital crisis ●	Medium impact on working capital scenario except for essential products ●
Overall impact	With order cancellations, inventory pile-up and highly fragmented sector, livelihood of weavers to be adversely affected	Largest impact among textile sub-sectors with medium/long term ripple effects across the value chain and severe working capital crunch	With interlinkages across other industries, this sector would be impacted in medium to long term (except for meditech essentials)

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Source: ITC Trademap; Industry Interactions; KPMG Analysis

● - High ● - Medium ● - Low



Mitigation strategy

Considering the significant impact of COVID-19 on the Indian textile value chain due to global market contraction and a subdued Indian market, the sector needs to recalibrate its approach to business in order to capture on the new normal in the post COVID-19 world by leveraging on its inherent strengths.

A

COVID-19 has opened up new opportunities for essential product categories such as masks, PPEs and other meditech products. Textiles and apparel manufacturers willing to calibrate their existing infrastructure to manufacture these products have a ready global market that is expected to grow over the next few quarters. This could be a natural evolution for technical textile players.

B

India depends significantly on raw material imports for high-value-added synthetic products. With supply chain disruption in China, the global textiles industry is expected to experience a vacuum for these raw materials in the post COVID-19 era. With the right infrastructure and capabilities, Indian textiles players stand to gain owing to the abundance of natural raw materials, a young workforce and end-to-end value chain capabilities. The country's textile value chain, however, needs to develop core competencies in high-value raw materials.

C

India has traditionally focused on low to medium value-added products and has not captured a significant share of high-growth global categories such as overcoats and blazers. Post COVID-19, exports from China in these categories are expected to significantly reduce. India is in a position to capture a major share of the global trade of these high-value product categories.

D

In technical textiles, the top 15 product categories (7 per cent of the overall products) accounted for USD1.2 billion¹⁰ (around 57 per cent of technical textile imports in 2019). These products were mainly consumed in the Indian domestic market. With investments in these product categories, Indian manufacturers have a ready domestic market. In addition, this initiative would lead to import substitution, employment generation and value retention within the Indian economy.

E

In 2019, India exported textiles raw material (fibre, yarn and fabric) worth USD12.6 billion¹¹, with fabric and yarn exports combined accounting for around 73 per cent of the overall raw material exports¹². With contraction of the global market and large-scale order cancellations in key sourcing destinations, the Indian textile value chain can leverage capacities in apparel and home textiles manufacturing to hedge on the subdued international demand for raw materials. This approach would, however, be successful if a significant share of the investment exodus from China can be captured by the Indian industry. This initiative would lead to technological advancement and a natural transition towards high-value products.



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10. Department of Commerce, Ministry of Commerce and Industry, Government of India

11. ITC Trademap

12. ITC Trademap

Acknowledgement

- Goutham Jain
- Sameer Hattangadi
- Vikas Nigam
- Satyam Nagwekar
- Rasesh Gajjar



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