

Sector:

Textiles

Project Title:

Textile Cluster

Project Description:

India is one of the most cost competitive producers of textiles and garments and is strategically in a better position to realize large share of the opportunities arising at the global level due to free trade initiatives of World Trade Organization (WTO). United States (US) and European Union (EU), the key textiles markets have already phased out the quotas restrictions and presents lucrative opportunities for Indian textile industry.

Ample availability of cost efficient, skilled manpower is the key advantage of Indian textile industry and this translates into direct competitiveness due to labour intensive nature of the industry. However, high degree of fragmentation and lack of modern infrastructure facilities fades away the manpower advantage. Modernization of existing units and cluster building has been embraced as a key strategy by Central Government to support the domestic textile and garment industry.

To assist the ongoing endeavors of Central Government, the Government of Madhya Pradesh (GOMP) intent to assist in the development of a modern textile cluster in the State. The cluster would be integrated in nature and would assist all kinds and size of textile companies, engaged in various production functions across the entire value chain of textile industry. The cluster would offer developed plots of varying sizes for spinning, knitting, fabric processing and apparel manufacturing units and also for establishing various companies providing intermediary products and raw material and other support functions.

For the envisaged project 2000 acres of land would be appropriated and would be developed in partnership with the private developer under Public Private Partnership (PPP) module.

Project Rationale:

Madhya Pradesh (MP) has a prominent place as a leading textile center of the Country. The State has a thriving textile cluster in the southwest region (Malwa). Since the Malwa belt has a large cotton growing area, large number of textiles mills are clustered around Indore, Ujjain, Burhanpur etc.

At present there are around 51 textiles units in the State. From production of raw material, to the final manufacturing of RMG, the State has significant strength across the value chain. Despite of this, the State has a very low share in the total apparel exports of the Country. At present, the textile export from MP is around

USD 250 mn which is less than 1% of the national exports.

Except few, maximum textile units in MP are small and unorganized and employ outdated production techniques. Due to absence of modern infrastructure facilities, the units are unlikely to benefit by the expanding opportunity spectrum in the domestic and international market. Further, they are susceptible to the increasing competition from the players in organized sector.

MP has the potential to attract a total investment of USD 2.2 bn approximately in the textile sector in the next 5 years. The State Government of MP has initiated a series of reform measures to promote the textile sector in the State. Since garment industries have the tendency to flock in clusters, especially nearby the sources of raw material, the State is focusing on cluster development around sectors of strategic advantages by developing infrastructure in and around these areas.

The proposed cluster would assist the fragmented garment and textile units in the State to organize and gain a vital mass and realize various benefits arising out of such a format such as economies of scale, synergies of operation etc.

Proposed Facilities:

The cluster would have following tenants:

- ✓ Spinning Mills
- ✓ Yarn Producing Unit
- ✓ Integrated Knitting Unit
- ✓ Ready Made Garment Units
- ✓ 100% Export Oriented Units
- ✓ Fabric Processing (Dyeing) Units
- ✓ Design and Testing Center

The cluster would offer following infrastructural facilities :

- Developed Plots of 1000 to 10,000 sq. mt.
- Primary and Secondary Roads
- Sanitation Facilities
- Excise Office
- Warehousing Facility
- Effluent Treatment Plant

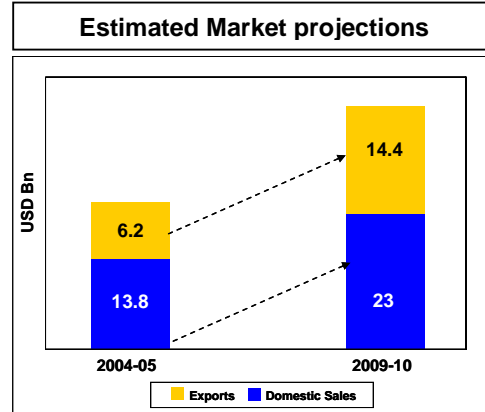
Market Potential and Demand Dynamics:

Textile is one of the key sectors contributing to the Indian economy. It accounts for nearly 7% of the Country's GDP and 17% of the total manufacturing output in

the Country. The sector contributes around 25% of the total Indian exports. Further it is the second-largest employment generating sector after agriculture, employing nearly 4.5 mn people.

The industry has a high growth potential as the global trade in textiles and clothing is expected to grow from the present USD 356 bn to USD 600 bn by 2010. RMG will be the key contributing segments in the international trade, which is expected to rise from USD 199 bn at present to about USD 400 bn.

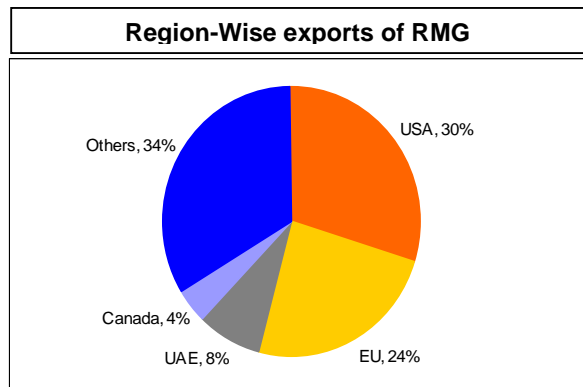
The total market for RMG in 2004-05 was estimated around USD 20.4 bn and is expected to raise to USD 38-40 bn by 2009-10 with a CAGR of 13-14% per annum. With a share of more than 68% in the total sales revenue generated in 2004-05, domestic market has significant impact over the health of textile sector. The total value of domestic RMG market in 2004-05 was around USD 14bn and is expected to grow to USD 24 bn by 2009-10 with a CAGR of 10-11%.



Source: CRIS INFAC

The quotas imposed over the exports from the low-cost manufacturing Countries like India under the Multi-Fiber Agreement (MFA), were the key impediments that had hindered the growth of domestic RMG companies. During the quota regimen, exports grew by a moderate CAGR of 6.3% from USD 4.6bn in 2000-01 to USD 6.2 bn in 2004-05. With the abolition of quotas, exports are expected to grow exponentially with an estimated CAGR of 18-20 % to reach nearly USD 16bn in 2009-10.

US and EU are two key exports destinations for Indian RMG COMPANIES. Currently with an export value of USD 2.1bn India has a share of 3% in total US apparel imports (in terms of Sq. mt) and is expected to increase to 6% by 2010. The value of total exports from India in 2009-10 is expected around USD 6.8 bn. The growth in apparel exports to the US market would be largely driven by apparels made from cotton, the segment where India has inherent advantage.



Source: CRIS INFAC

Indian exports to EU are expected to grow at a CAGR of 25-27%. Indian apparel exports to EU are expected to grow from USD 1.5 bn in 2004-05 USD to 4.5-5.0 by 2009-10. Further Indian companies would gain by the quotas restrictions imposed over the Chinese companies by the EU.

Why Madhya Pradesh?

Key advantage offered by the State:

- Easy availability of raw material (cotton).
- Large number of ginning and pressing units.
- Ample availability of skilled and semi-skilled manpower.
- Strategic central location facilitates cost effective logistics functions.
- Well developed connectivity with Country's key commercial centers and major ports.
- Peaceful labour environment.
- Separate incentives to the textile industry.
- Established cotton and textile clusters.
- Presence of prominent textile players in the State.

Location Analysis:

Ujjain has been proposed as the ideal location for developing the envisaged textile cluster due to the following key factors:



- ✓ Proximity with the cotton producing area.
- ✓ Already well established base of textile industry.
- ✓ Well developed commercial and social infrastructure.
- ✓ Proximity with Indore, another key textile and commercial center of central India.

Government Support:

Highlights of Special Incentives Given to Textile Industry

- Special Incentives to Readymade Garment, Power looms and Made-up Garment industries:
 - Benefits under Government of India's schemes such as *Apparel Park Scheme*, *Textile Centre Infrastructure Development Scheme (TCIDS)*.
 - Modernization of units of this sector through *Technology Upgradation Fund Scheme (TUFS)*, *Group Work Shed Scheme*.
 - *Exempted from the binding of minimum wage fixation* on a daily basis.
- An *Apparel Training Institute* would be set up with the assistance of Apparel Export Promotion Council in the State, so that maximum number of trained worker could get employment in the Ready-made Garment

industry.

- Efforts to establish a *national level fashion designing technology institute* in the State in order to facilitate textile industry of the State regarding the information for design development and to provide forecasts.
- In order to accelerate the pace of modernization of the unorganized power-loom sector, modern *power loom clusters would be developed at Burhanpur, Indore and Ujjain* with financial assistance sought under Government of India's Group Shed Scheme.
- Development of the process house through private participation by providing necessary facilities and if required their cases would be considered by the committee for Mega Projects.
- The provision related to *labour laws declared for Special Economic Zone will be made applicable to the projects / special areas established such as Apparel Park, Garment Complex* and unit established/being transferred under *Group Work Shed Scheme*.
- Cotton ginning and pressing units would be provided high quality cotton and they would be encouraged for modernization under centrally sponsored schemes with the help of their recognized associations.
- Construction of tar roads for smooth transportation to Cotton Mandi and construction of cement platform for storage of cotton, using Mandi Board's fund would be taken up on priority basis.
- Units purchasing yarn produced within the State, would be given a "set off" of 2% (Two percent) on Commercial Tax would be given.

Proposed Investment:

The total capital investment is estimated around USD 8 mn or INR 36 crores.

Returns:

The Internal Rate of Return from the project is estimated in the range of 12 – 14 percent.

Coordinating Agency:

Madhya Pradesh State Industrial Development Corporation