

# Impact of COVID-19 on the Indian Textile Industry

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wazir  
ADVISORS

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The deadly Coronavirus (COVID-19), declared as a global pandemic by the World Health Organization, has globally infected more than a million people and taken several lives. In addition to immense human grief, the virus is taking its toll on the global economy. The outbreak has affected the textile & apparel industry globally as well as in India. The spread of the virus is having serious implications and companies have started feeling the impact because of supply chain disruptions, declining exports and uncertainty in orders.

### How is Coronavirus Affecting the Textile Industry?

#### **Retail Doors Closing & Future Demand Uncertain**

With the increasing spread of coronavirus in US & EU, the two major markets for apparel globally, there has been a significant reduction in demand. A growing number of retailers across the globe have announced temporary closure of their brick and mortar stores in an effort to prevent the spread of coronavirus. A large number of buyers have cancelled their running orders and frozen future buying as well. In US, fashion and specialty apparel stores have already seen a decline of 10% in sales in feb –march since the onset of the virus. Buyers typically start shipping in goods for the holiday season from Asia as early as in June. However, with the emerging health crisis and a period of uncertainty ahead, the COVID-19-induced economic slowdown could end up hitting the holiday sales, when many retailers make the bulk of their profits. The EU textile and apparel industry is also expecting more than 50% drop in sales and production this year. With uncertainty on the extent of duration of this virus, there is expected to be a prolonged impact on global apparel demand in the near future.

#### **China Slowly Coming Back**

After a two-month long production shutdown, Chinese textile & apparel manufacturers are gradually commencing operations. However, with majority of the world still stuck on the virus curve, manufacturers might find it difficult to fill their capacities due to unavailability of orders. Fashion brands sourcing from China for the autumn season generally place their orders during this month with a delivery in May or June. With an uncertainty in the situation and the lockdown period ahead, buyers are hesitating to place any new orders and are in fact either cancelling or putting their existing orders on hold. With the virus growing in other countries, China has increased production of medical textiles like masks and other personal protective equipment and are exporting the same to other countries.

#### **Indian Manufacturers Take a Hit with the Country's Lockdown**

The nationwide shutdown for three weeks has brought India's textile & apparel industry to a standstill. The outbreak of coronavirus in China had disrupted the supply chain and Indian apparel manufacturers faced a shortage in supply of synthetic fabric and accessories. But after coronavirus moved to Europe and USA, production started slowing down. With retail stores in these markets temporarily closing down, brands started putting their orders on hold or cancelled them. The textile industry has been hit hard with brands holding payments and cancelling all the orders. With india under lockdown the domestic market has also come under complete halt and now facing an uncertain future. It is expected that this disruption is expected to reduce market demand by around 15-20% resulting in large scale loss in production and jobs.

### **Livelihood of Apparel Workers Affected**

As the coronavirus spread to the Asian subcontinent, the house to apparel manufacturing, factories felt the effects in their operations. Temporary closure of factories amidst the lockdown in India has forced manufacturers to hold back wages of their workers to balance out their losses. In India, the textile & apparel industry predominantly employs migrant workers from different states and a large workforce comes from nearby villages utilizing the public transport. Under the current scenario, especially the constant preventive measures being taken in the country and awareness created by the government to fight the coronavirus pandemic, majority of the migrant workers are returning to their native places. When the lockdown restrictions are lifted and factories commence production, it will be a challenge to get these migrant workers back to the factories.

### **Raw Material Prices Decline**

India's cotton yarn exports, especially to China, have significantly declined in the past two months. This has led to the surplus cotton yarn being diverted to the domestic market. As a result, cotton yarn prices have witnessed a decline of 3-5% during the past month.

With reduced demand and falling oil prices, there has been an impact on polyester prices as well. Polyester prices have reduced by more than 20% due to reduced demand and has resulted in significant losses for the fibre players.

## Policy Interventions and Expectations from the Government in Textile Sectors

The pandemic has hit the Indian economy at a time when growth has slowed to the lowest in a decade, investments are shrinking and a consumption recovery is sputtering. The situation is likely to intensify with the steep reduction in demand due to sudden halt of production and closure of retail stores. The textile & apparel exports as well as the domestic sales have come down to a grinding halt due to the global shutdown. Moreover, markets are highly unlikely to return to their normal buoyancy any time soon and payments are likely to be delayed by retailers, who are fighting their own battles for survival.

In times when the industry is likely to face unprecedented and severe losses, a comprehensive support package is required from the government to cushion the potential collapse. There are several measures that can be taken up immediately with some modifications in existing schemes and can be implemented soon. Some of the relief measures that are expected by the industry are:

### Clearing pending subsidies

- Release of dues under TUFS, export subsidies (RoSCTL/MEIS), and GST refunds, on immediate basis
- Extension of soft loan equivalent to these Government dues that could be adjusted soon as the Government clears the dues

### Financing related

- Deferment of interest charge for a period of six months on all loans
- Moratorium for repayment of principal & interest for one year
- Reduction in bank interest rate by 3%
- Provide at least 30% additional working capital at lower rates without any collateral
- Collateral-free lending for loans up to Rs. 2 crore and max. collateral of 35-40% for lending beyond Rs. 2 crores
- Relax RBI norms for declaring the defaulting unit as NPA for one year

### Fiscal support

- Cover all textile, garments and made-ups products under RoSCTL, IES & MEIS benefits
- Increase Interest Equalization Scheme from present level to 5% for all garments and made-ups for FY 2020-21 and extent this benefit further to all other textile items not covered in the scheme.
- Provide 3% additional ad-hoc export incentive for one year

### Others

- Exemption all raw materials, dyes & chemicals, intermediaries, spares, accessories, etc., from basic customs duty and anti-dumping duty, if any
- Defer payment of EPF and ESI contributions for 6 months
- Extend support to the industry for payment of salaries and wages to the workers during the lock-down period.
- Textile Industry being a continuous process and predominantly export oriented industry, advise the State Governments to permit the units run with in-house workers with prescribed pre-conditions.

## Outlook of Textile & Apparel Industry Post Coronavirus

The global outbreak of coronavirus has created a havoc in the fashion industry. The spread of the virus is bound to have serious implications and companies have started feeling the impact with store closures and uncertainty in orders. Since the pandemic is still in its growing phase it is difficult to predict the full extent of the impact. However, there are some key changes that can be foreseen as an aftermath of this pandemic and how it can shape the industry.

### **Steep Decline in Domestic Market and Exports**

The black swan event has affected the Indian textile & apparel industry, in terms of both trade and domestic consumption. With the steep reduction in demand due to sudden halt of global trade and domestic sales due to the closure of retail stores, the industry is likely to face unprecedented and severe losses. The spread of the virus initiated in China and later spread to EU and USA. These are huge markets for Indian textile & apparel products and hence, the Indian textile value chain is bound to face adverse repercussions of the pandemic. Brands are expected to postpone orders in the upcoming six months and will initially demand smaller order quantities at very tight margins as a step to recover from the reduced sales in the previous weeks.

Coming to the domestic market, brands are looking at very low consumer sentiment and a steep decline in consumption in the coming year. Retailers and brands have already started halting production lines, delayed season releases and cut buying budgets to prepare for these eventualities.

### **Opportunity for India as Brands Look to Reduce Dependency on China**

China manufactures more than a third of all clothing and textiles globally. China was the initial epicenter of the coronavirus outbreak and the production lockdown enforced in the country vastly disrupted the textile & apparel supply chain. Apparel brands who sourced goods solely from China were in a fix and were forced to explore other countries for sourcing in a short time period.

Some brands will follow the strategy of diversification and reduce their dependency on China to prevent any such situation in the future. Brands were already actively pursuing the move of diversifying from China, owing to increase in manufacturing costs and tariff issues with USA. The supply chain gap developed due to this pandemic has added more weightage to this strategy.

Brands will explore alternate options such as Bangladesh, India, Vietnam, Cambodia or any other S. East Asian supplier. India has a competitive manufacturing costs and presence of complete supply chain. India can utilize this opportunity and present itself as a credible alternate to increase its exports share.

### **Global Demand of Medical Textiles Increases**

Sales of medical protective gears including surgical masks and protective clothing has jumped drastically. Western nations are importing large quantities of such products to battle the disease. The supply of these products is not able to keep up with the rising demand. The rapid spread of the disease across the globe has sensitized people to hygiene and healthcare. The demand for medical protective gear such as masks, disposable gloves and hygiene products such as wipes is expected to surge and sustain even after the end of the coronavirus pandemic. This is a lucrative opportunity for the textile industry in the near future.

### **Increased Focus on E-Commerce Sales and Digitalization of Supply Chain**

In order to avoid the incidence of crowds and reduce the spread of coronavirus, malls and retailers took the step to close their brick and mortar stores. But the e-commerce channel of these stores are still operational in certain countries. During the initial phase of coronavirus, consumers increased their online purchasing as a safe alternative to visiting physical stores. This shift could lead to a changed buying behavior post the pandemic and has the potential to build longtime e-commerce customers.

Brands and retailers are further driven to incorporate digital strategy in their buying process. Online marketplaces like Joor are expected to become more popular as brands and retailers look to maximize digital options of showcasing their products and facilitating the buying and selling process.

## How can the Indian Textile Industry Emerge from this Pandemic?

The Indian textile & apparel industry will need to gear itself to fight the economic consequences that the coronavirus has brought with it. Manufacturers need to maximize their internal capabilities and focus on building their efficiencies. This will enable them to work with the anticipated shorter lead times and tight margins. Companies should further focus on adopting digital ways of connecting with buyers.

Textile and apparel companies need to maintain close connect with buyers and be ready to respond to buyer requirements. Companies may also focus on planning for the winter or next spring summer season and target the channels of value retailing and ecommerce, which are expected to grow in the near future. Indian companies should also look out for new markets beyond US and EU like Japan, South Korea etc. and focus on diversifying both markets and products.

With depressed prices of raw materials like polyester, cotton etc. textile and apparel companies can also look at hedging raw material prices and wherever possible stock raw material which will be helpful once the market opens again.

Companies could also explore emerging product categories such as medical textiles (surgical gloves, personal protective masks, gowns, wipes, etc.) and other textile items required for healthcare facilities like hospital bedsheets, mattresses etc. With countries' increased focus on healthcare, medical textiles is likely to see a surge in demand.

The government has recently announced a few relief measures for the industry which will help mitigate the crisis being faced by companies. Some of these measures are given below:

- The Rebate of State and Central Taxes & Levies (RoSCTL) on apparel and made-ups has been extended for the upcoming financial year until merged with Remission of Duties and Taxes on Exported Products (RoDTEP). This will make the textile sector more competitive and boost exports.
- The government has announced to pay the entire employee provident fund for establishments with up to 100 employees where 90% of the employees are earning less than Rs. 15,000. This will be a huge aid for the labour intensive small and medium scale apparel manufacturers.
- The Reserve Bank of India has announced a moratorium of up to 3 months on payment of instalments of term loans.

With the current lockdown in place factories are shut and it is unpredictable when the operations will start again. However, textile and apparel companies need not lose all hope and need to be patient and be ready whenever markets open again, hopefully well in time before the festive season.

**wazir**  
ADVISORS

**Prashant Agarwal**  
prashant@wazir.in  
+91 9871195008

**Sanjay Arora**  
sanjay@wazir.in  
+91 9971110566

**Varun Vaid**  
varun@wazir.in  
+91 9899985979

**B. Prakash**  
prakash@wazir.in  
+91 9810866927

[www.wazir.in](http://www.wazir.in)



[linkedin.com/in/WazirAdvisors](https://linkedin.com/in/WazirAdvisors)



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**Wazir Advisors Pvt. Ltd.**

3rd Floor, Building No. 115, Sector 44, Institutional Area,  
Gurugram - 122 002, National Capital Region, India