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A Comparative Study of Handloom Budget against Textile Budget in India

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Keywords :

As China is becoming more expensive and moving away from mass exports, India and other Asian countries can grab a larger share of the global market. Thanks to the global economic recovery, exports from India are booming and one industry which has greatly benefited from the demand upturn is readymade garments. Being the second largest job provider, the garments industry now employs nearly 70 lakh people in India. Besides, the rise in exports is also good news for the economy.

Bulk of India's exports of apparels goes to the US, Canada and the European Union. The Government thinks India has the potential to increase its textile and apparel share in the world trade from the current level of 4.5 per cent to 8 per cent and reach $80 billion by 2020. India has the highest number of looms – 1.8 million shuttle looms (at 45 per cent of global capacity) and 2, 00,000 shuttle-less looms (at 3 per cent of global capacity). We also have 3.9 million hand looms (at 85 per cent of global capacity) and the second highest number of spindles at 23 per cent of global capacity. Exporters are enjoying good demand and the industry players are booked with orders through June and July 2011, which is exceptionally good for the Industry. "There is a good demand for our exports in the US. There is an improvement in the European market as well," said Apparel Export Promotion Council (AEPC) Chairman Premal Udani. The US accounts for about 40 per cent of India's total garment exports. Exports started growing in August 2010 after witnessing deceleration in the initial months of the current fiscal.

Textile Budget 2011

Financial Year (FY) 2011 so far has been reasonably good for the Indian textile industry as the export demand from the US and Europe have shown an upswing and realizations have been better for the larger players due to vendor consolidation. However, the forex losses due to the volatility in the rupee against the US dollar as well as higher interest costs going forward are key risks to the sector. The Clothing Manufacturers Association of India (CMAI) estimates that 5 to 6 lakh jobs are at risk. As exporters struggle to secure profitable orders, the Ministry of Textiles' US$ 28 bn export target for the fiscal year seems well beyond reach. Companies are also trying to add niche value-added material to their product mix to stabilise their margins. Some firms that have ventured into retail chains are finding rising commercial real estate prices an impediment to their ability to roll out with the speed necessary to attain critical mass. Union Budget 2011-12 offered very little scope to the textile sector to improve its profitability. Non extension of discounted interest rates offered to the sector for its capacity addition will mean even higher interest costs for the companies that do not complete their apex borrowing by the due date.

Budget Expectations

Considering the fact that this decade would witness highest ever investment by the textile industry, estimated to the tune of US$ 70 bn, players in the sector are expecting subsidized TUF (technology upgradation fund) scheme to be extended till 2020. Reduction of Excise duty on polyester fibre from 10 percent to 4 percent and considering the rising interest cost scenario and in order to make Indian textile exports competitive in international markets, interest subvention of 2 percent is expected to be extended until the end of March 2012.

Budget Measures

- Rs.30 bn funding to NABARD to provide support to financially unviable handloom weavers with huge debt burdens.
- Optional tax levy at 10percent made mandatory on branded garments and made ups.
- Surcharge on domestic companies reduced to 5 percent from 7.5 percent
- Basic custom duty on nylon yarn and nylon fibre reduced from 10 percent to 7.5 percent.
- Lower rate of central excise duty increased from 4 percent to 5 percent.
- Rate of Minimum Alternative Tax (MAT) proposed to be increased from 18 percent to 18.5 percent of book profits.

Budget Impact

- Companies that do not complete their capex related borrowing by the due date of March 31, 2012 will have to incur higher borrowing cost as the interest subvention under the Technology Up gradation Fund (TUF) will expire by that date.
- The financial support from NABARD could help the revival of unorganized players in the handloom industry and evade mass unemployment in the sector.
- Higher taxes on branded garments and made-up will eat into the profits of the sector.
- The lower surcharge could have a positive impact, albeit nominal, on the profits of the smaller players in the sector.

Company Impact

- Companies like Raymond, Arvind and Alok Industries that have presence in branded garments, made-up and textile retailing will be impacted by the higher tax levy.
- Most companies in the sector are highly leveraged and may have to cap their capex plans until FY12.

Table 1 Handloom Budget Compared against Textile Budget

Year	Handloom Budget (HB)	% change in THB with 1997-98 as base year		Total Textile Budget(TB)		Plan	Non-Plan	Total(THB)	

Plan	Non- Plan	Total (TTB)	% change in THB with 1997-98 as base year	% share of Handlooms in Textile Budget 1997-98	107	96.5	203.5	0	260
479.04	739.04	0	27.5 1998-99	89.8	61.8	151.6	-25.5	260	726.58
986.58	33.49	15.3 1999-00	81.8	56.5	138.3	-32.03	266	740.1	1006.1
36.13	13.7 2000-01	112	53.29	165.29	-18.77	457	754.3	1211.3	63.907
13.6 2001-02	116	40.5	156.5	-23.09	650	660.3	1310.3	77.29	11.9 2002-03
117	35.83	152.83	-24.89	715	870.5	1585.5	114.53	9.63 2003-04	129.8
125.91	255.68	25.64	760	947.84	1707.84	131.08	14.9 2004-05	119.4	132.37
251.73	23.7	878	902.31	1780.31	140.89	14.1 2005-06	131	63.89	194.89
-4.23	1150	858.25	2008.25	171.73	9.7 2006-07	150	91.29	241.29	18.5
1350	1696.25	3045.75	312.12	7.9 2007-08	252	68.75	320.75	57.6	2243
893.68	3136.68	321.72	10.22 2008-09	255	70.32	325.32	59.86	500	823.51
3323.51	349.7	9.7 2009-10	255	73.07	328.07	61.2	2500	889	3389
358.56	9.68								

Source: Compiled from Annual Union Budget of India, Ministry of Finance

Handloom Budget Allocations

The handloom and handicraft sectors continue to be neglected in terms of budgetary allocations. Given that these two sectors directly employ 13 million people which is approximately 3 percent of India's workforce, the allocation to these sectors have not matched their role in the Indian economy. While for handloom, its budgetary expenditure share declined from 0.04 percent to 0.03 percent of the national expenditure budget in the year 2009-10 compared to 2008-09; for handicraft, the share came down to 0.02 percent from 0.03 percent. In terms of percentage share of the total textile budget, the combined budget allocations for handloom and handicrafts reduced to less than 18 percent in 2009-10 from 35.16 percent in 1997-98.

As evident in Table 1, the overall budget for the textile sector has been consistently increasing over the years but the total budget for handlooms reduced over its previous year allocations in six out of the last thirteen years. The budgetary allocations to the textile sector grew by over 350 percent from Rs.739.04 Crores to Rs.3, 389 Crores during 1997-98 to 2009-10. However, the share of handlooms registered an increase of only 61 percent over the same period, from Rs. 203.50 Crores to 328.07 Crores. Even this small increase over the years in the handloom budget should not be attributed to any long- term growth plan. The biggest increase in the budgetary allocations from Rs. 152.83 Crores to 255.68 Crores (by 67.2 percent) was witnessed in the year 2003-04, which was also the year of the general elections in the country.

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