

The Great Lockdown: Indian Home Textile Industry to Shrink 25%

April 30th, 2020

Contents

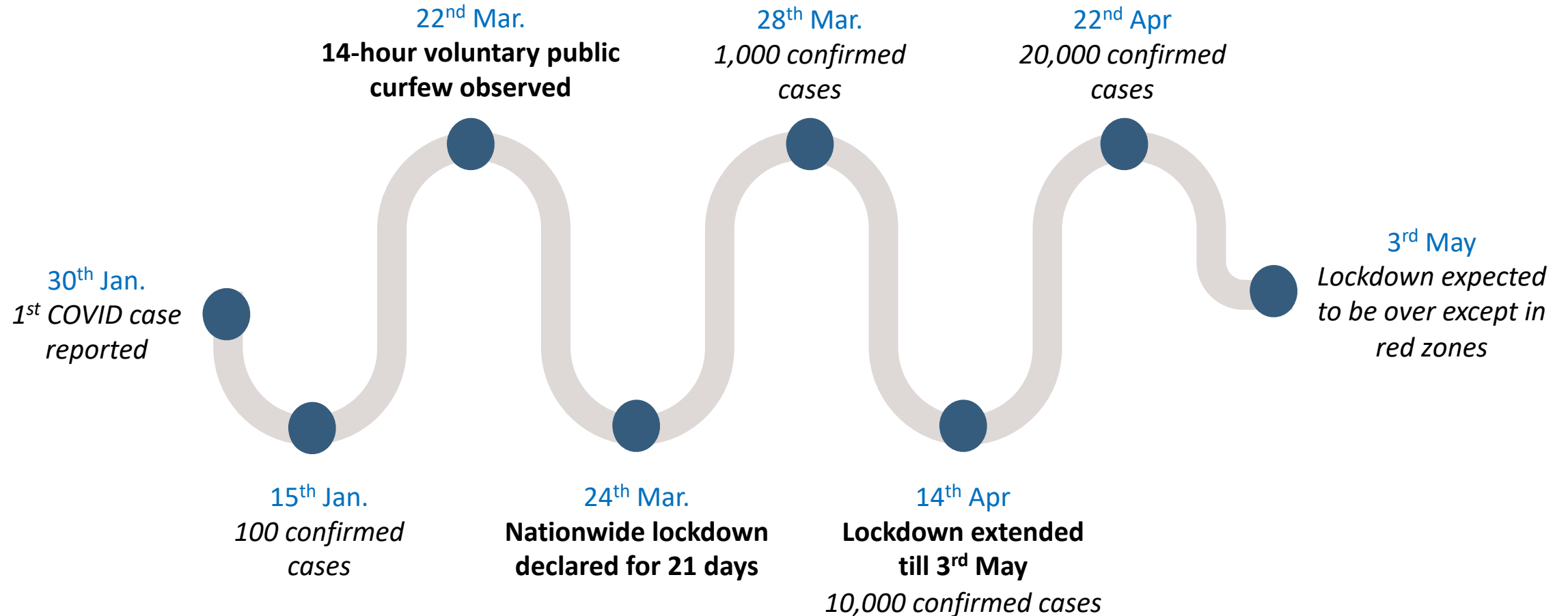
- Domestic Market Scenario
- Home Textiles Export Scenario
- Summary & Way Forward



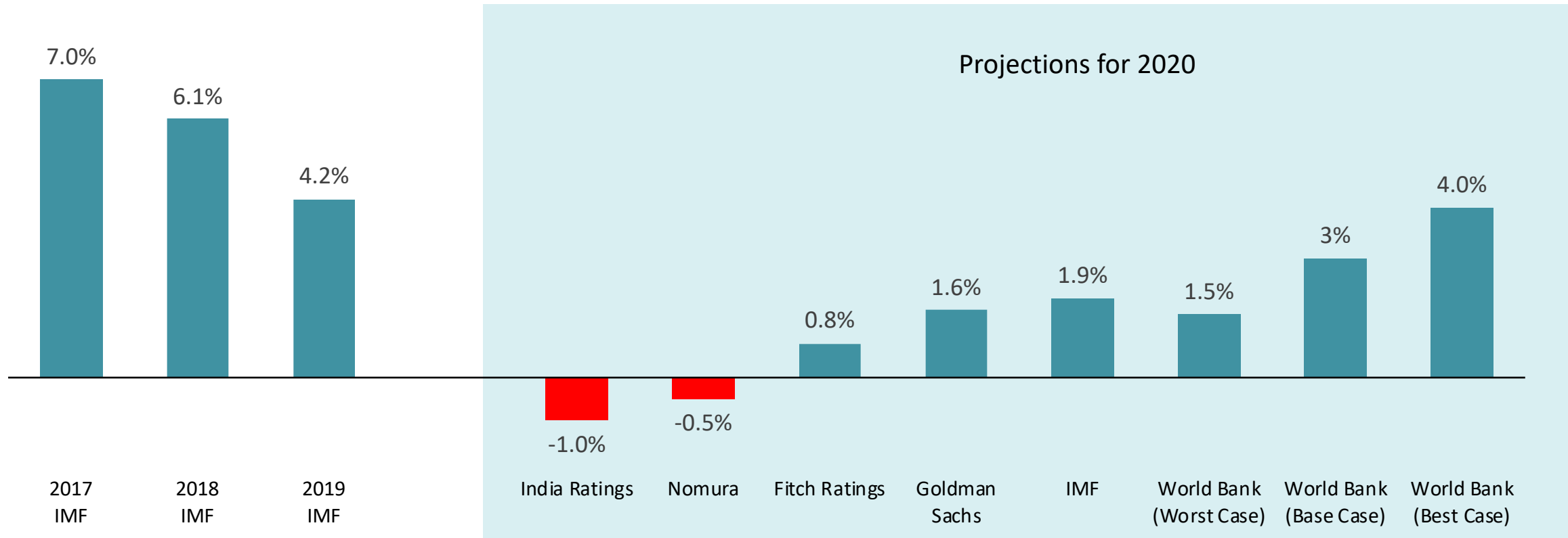
Domestic Market Scenario



40-Day National Lockdown Is Nearly Over



COVID Battered GDP Projections For India






Data Source: Respective agencies

After slowing down in last few years, the Indian economy was expected to recover in the last quarter of FY20. However, the coronavirus pandemic has made the recovery extremely difficult in the near to medium term.

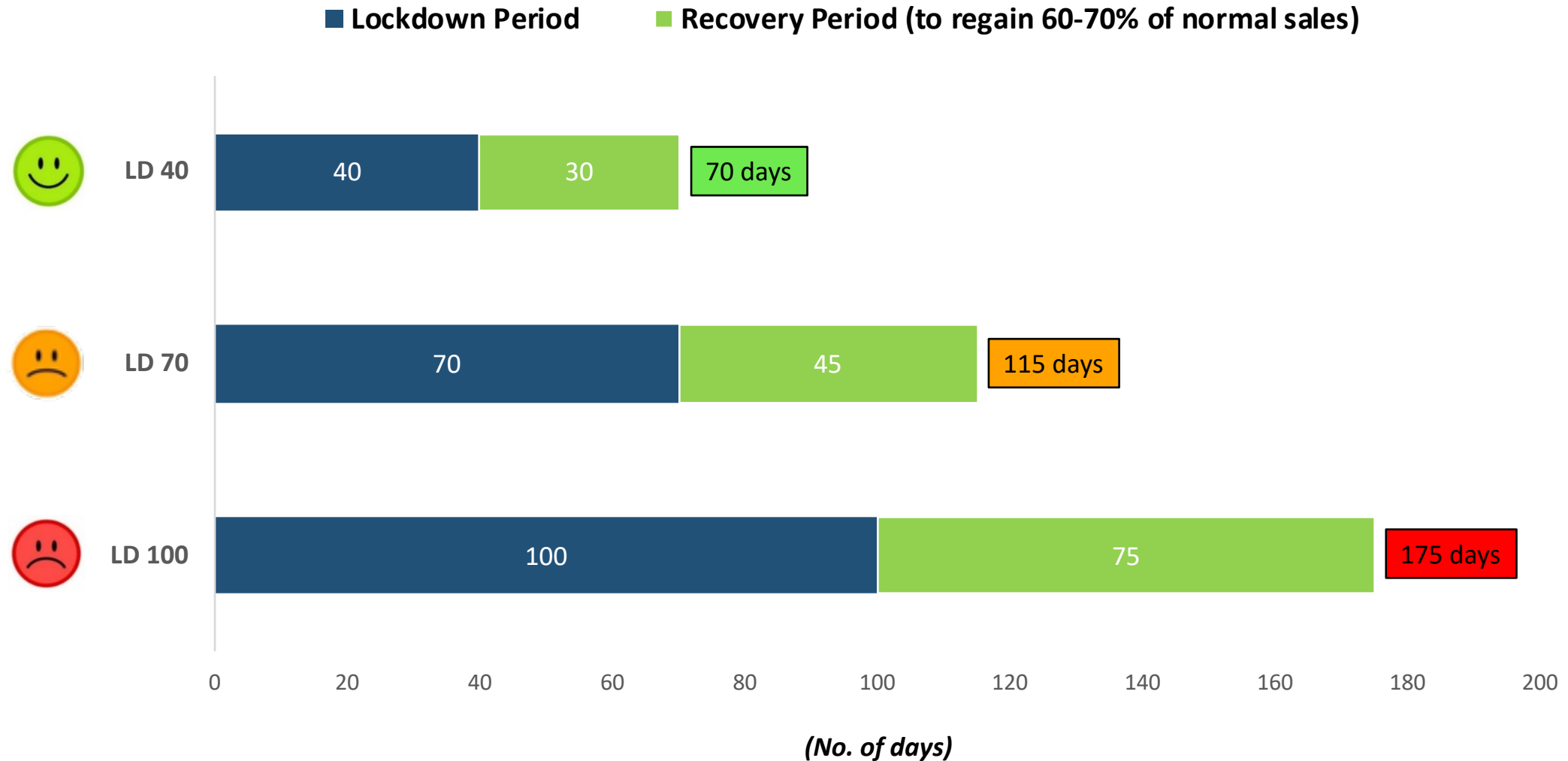
3 Factors Will Drive The Consumption Change

- Duration of Lockdown
- Pace of Market Recovery
- Demand Seasonality

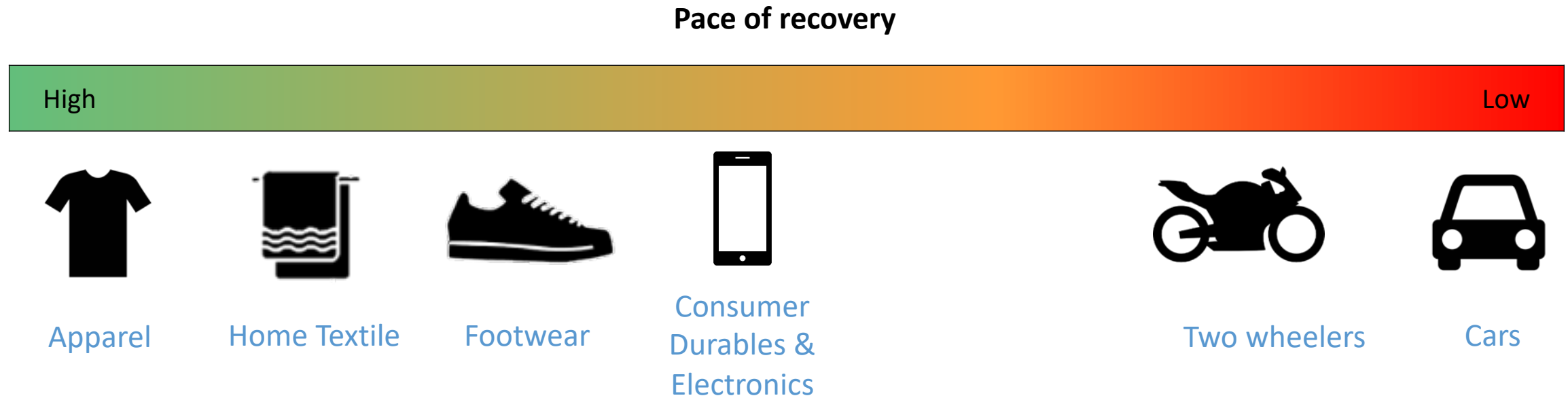
3 Probable Scenarios Of Lockdown Duration

			Expected Consumer Response to Lockdown	Expected Consumption Behavior post Lockdown
	LD40	Scenario 1 Lockdown for 40 days till May 3 rd	<i>Jaan Bachi Lakho Paye</i> (Happy to be alive)	Optimistic
	LD70	Scenario 2 Lockdown for 70 days till May 31 st	<i>Jaan Hai Jahan Hai</i> (Thank God, am alive and have a job)	Realistic
	LD100	Scenario 3 Lockdown for 100 days till June 30 th	<i>Jaan Nikal Gayi</i> (Am as good as dead)	Pessimistic

Longer The Lockdown, Slower Would Be The Recovery



Recovery Pace Will Vary Across Segments



While all consumer market segments will be affected badly, it is expected that some will recover faster than the others depending on:

- Utility : Requirement on a regular basis for basic needs
- Durability : Need to replace due to wear and tear
- Unit Cost : Could be a deterrent to spend large sums

Seasonality Will Have Different Impact Across Segments

(Q1-AMJ : April, May, June 2020 and so on)



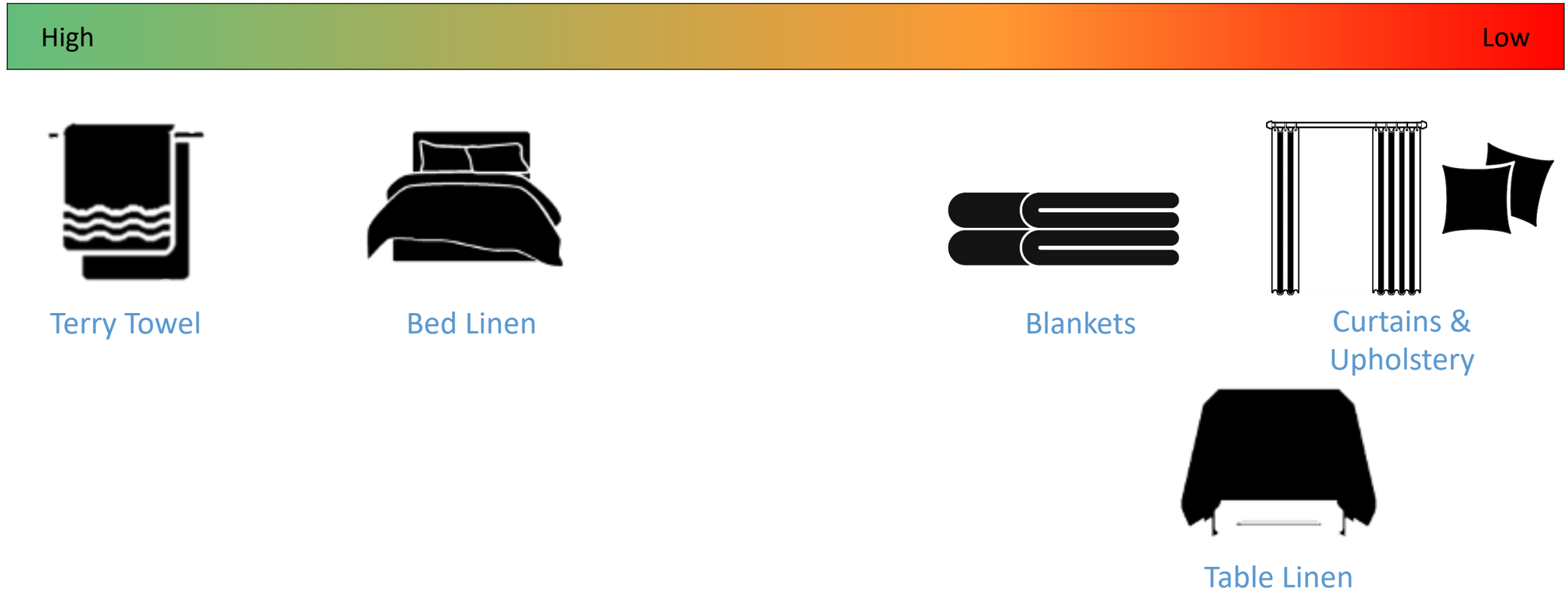
Categories where sales velocity is higher in Q3 and Q4 will be impacted least

(Sales Velocity during normal times)



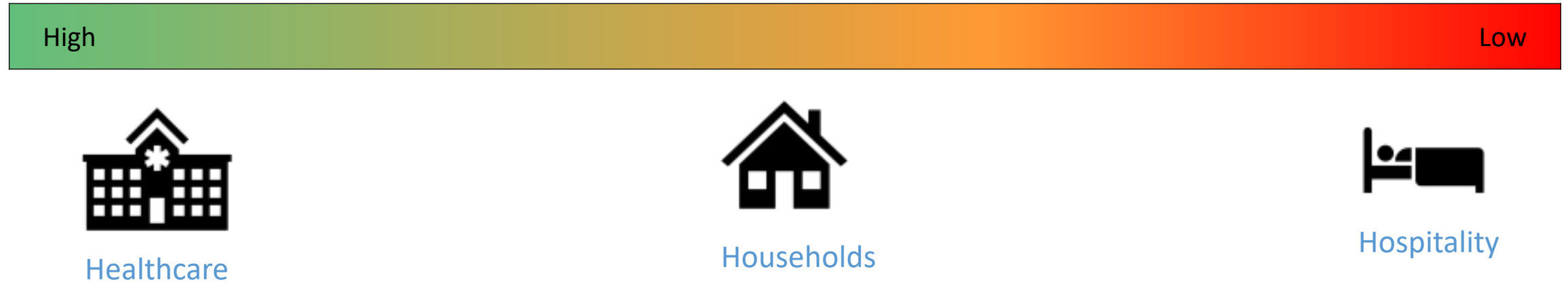
It Will Also Vary Category-wise

Pace of recovery of various home textile categories

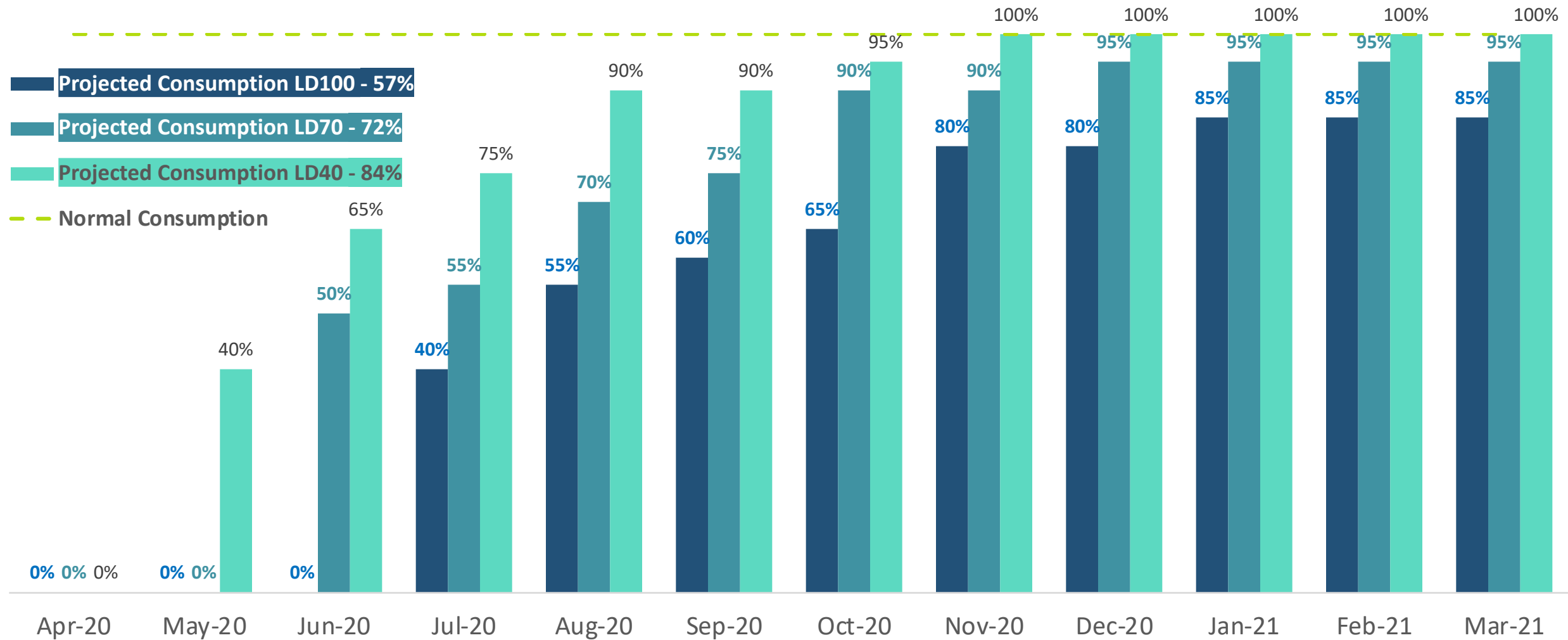


...and End-user segment wise

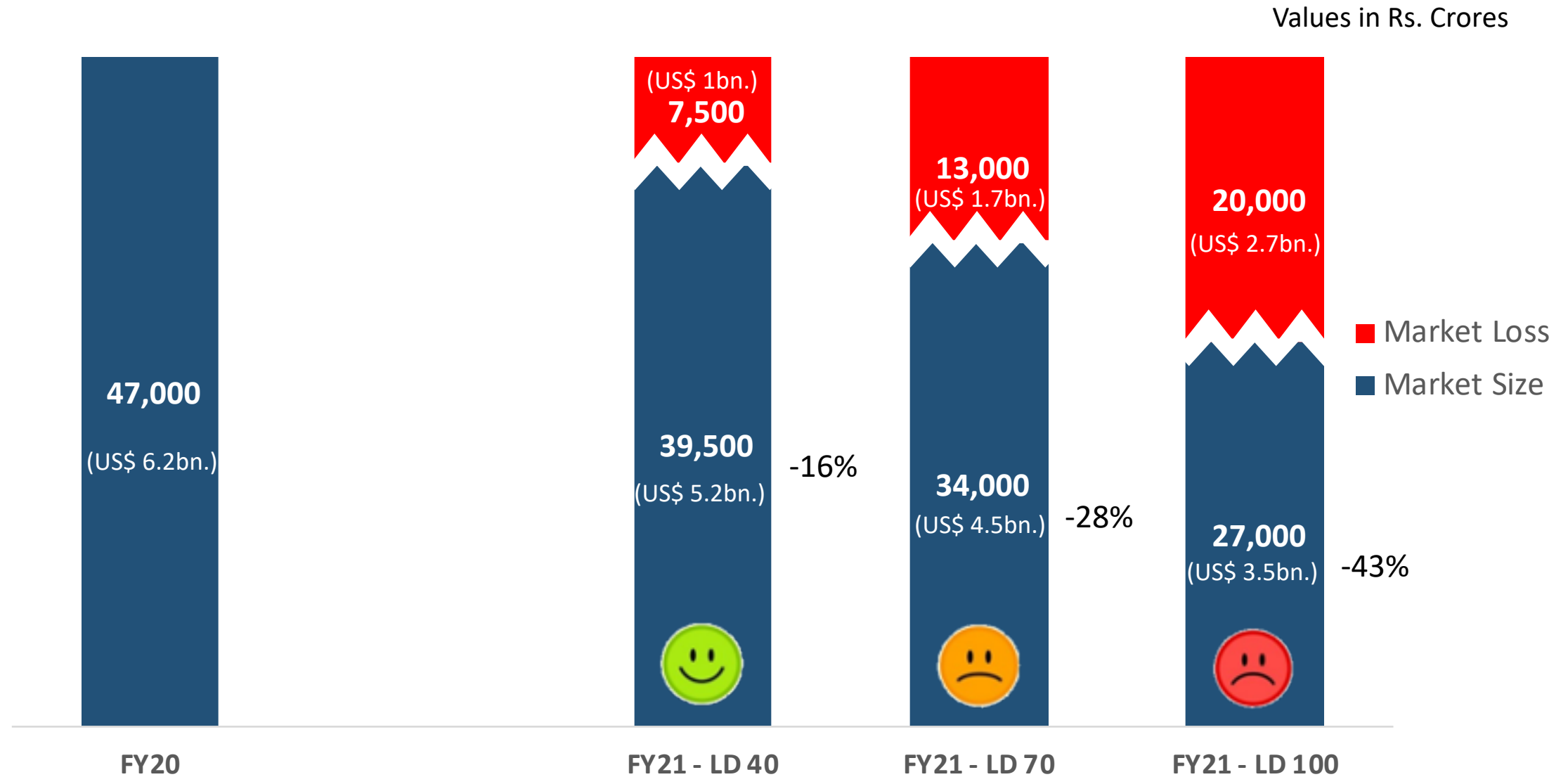
Pace of recovery of various end-user segments



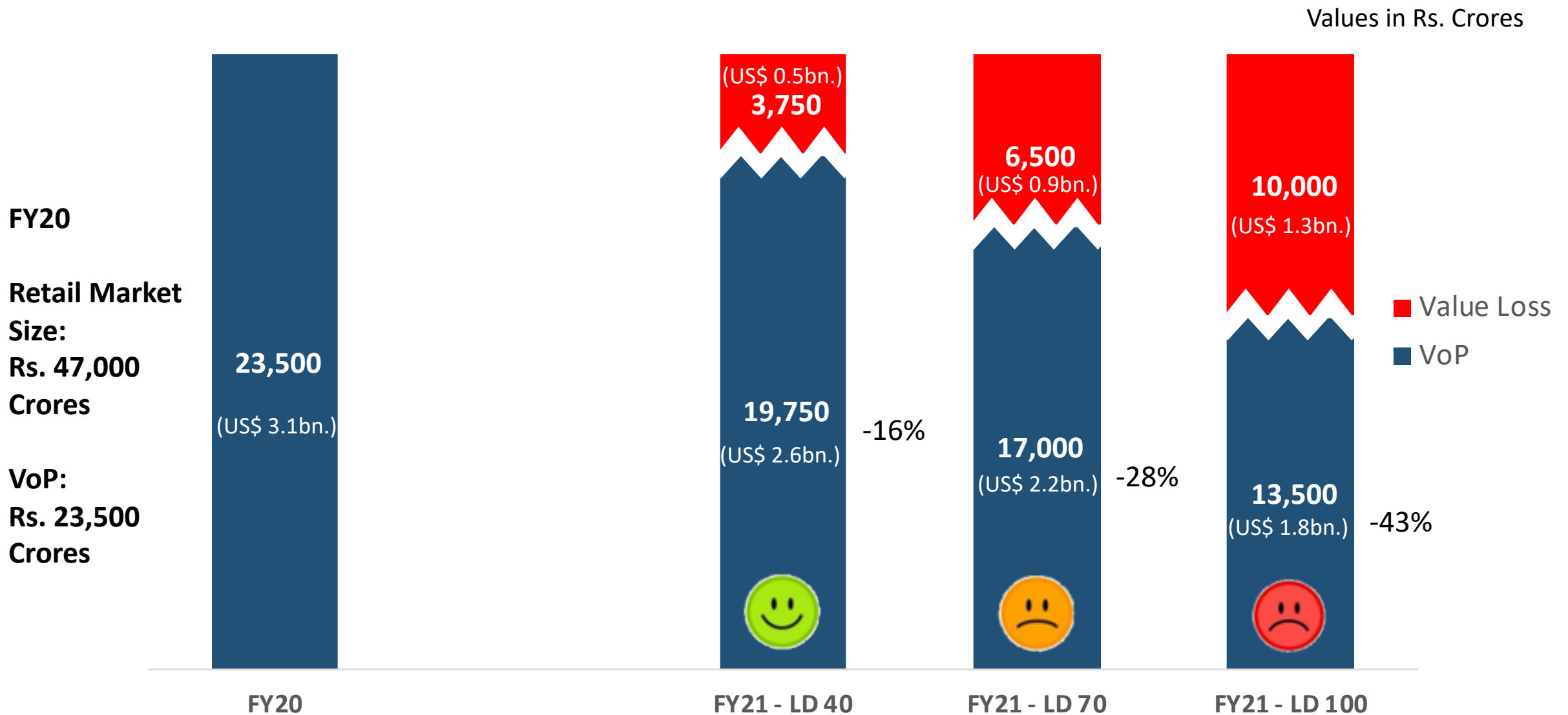
Monthly Consumption Will Vary With Length Of Lockdown



Home Textiles Retail Will Reduce From 16% to 43%



Value of Production (VoP) Will Reduce Proportionately





Home Textiles Export Scenario



2 Major Factors Will Impact Global Home Textiles Trade

- Duration of Lockdown in Key Markets*
- Economic Situation in Key Markets

* US and EU are the key markets that account for 70% of global home textiles imports. Also, 75% of Indian home textile exports are to these two markets.

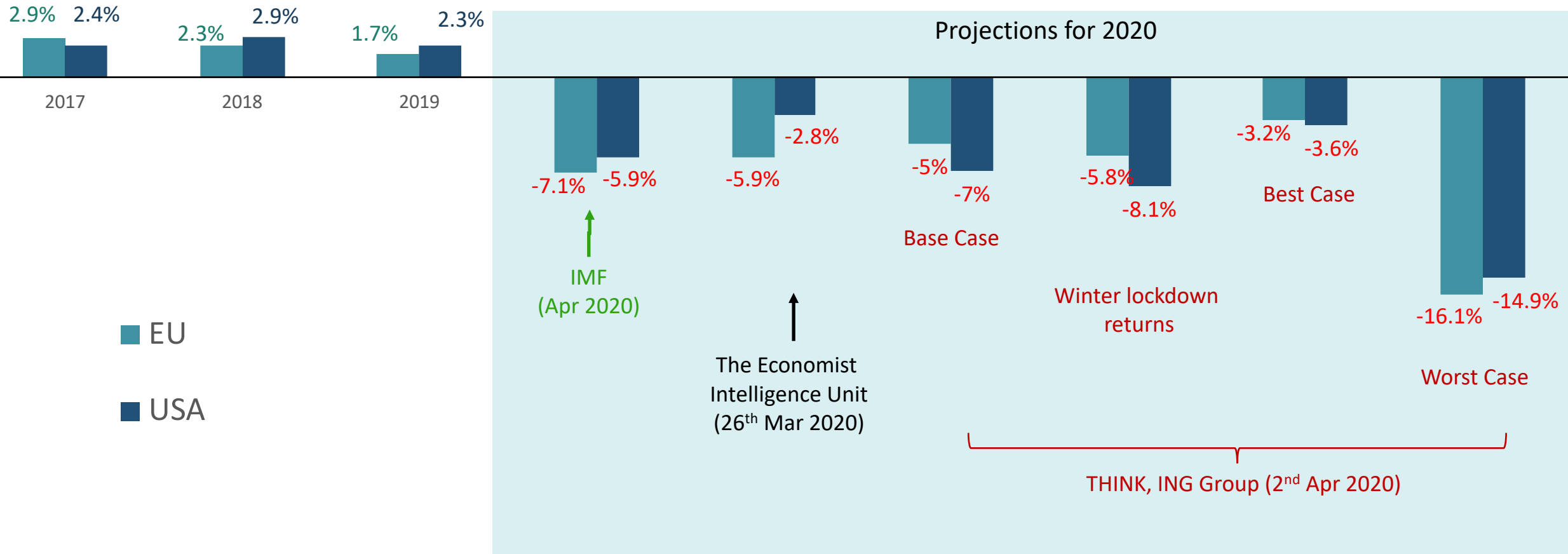
Stores In The US And Europe Will Remain Closed For 3-4 Months

Country	Lockdown Start Date	Peak New Case Date	Short Potential Lockdown End Date	Long Potential Lockdown End Date
US	W1 April (latest states)	W1 May	W2 June (earliest states)	W3 July (earliest states)
Germany	22 nd Mar	W1 May	W2 June	W1 July
UK	24 th Mar	W3 May	W3 June	W4 July
France	17 th Mar	W3 May	W2 June	W4 July
Italy	10 th Mar	W3 April	W2 June	W1 July
Spain	14 th Mar	W4 April	W1 June	W3 July
Poland	24 th Mar	W4 April	W3 June	W1 July
Belgium	17 th Mar	W3 May	W2 June	W4 July
Sweden	11 th Mar	W4 Mar	W1 June	W3 June

Source: Epidemic Projection by BCG, Mar 26, 2020

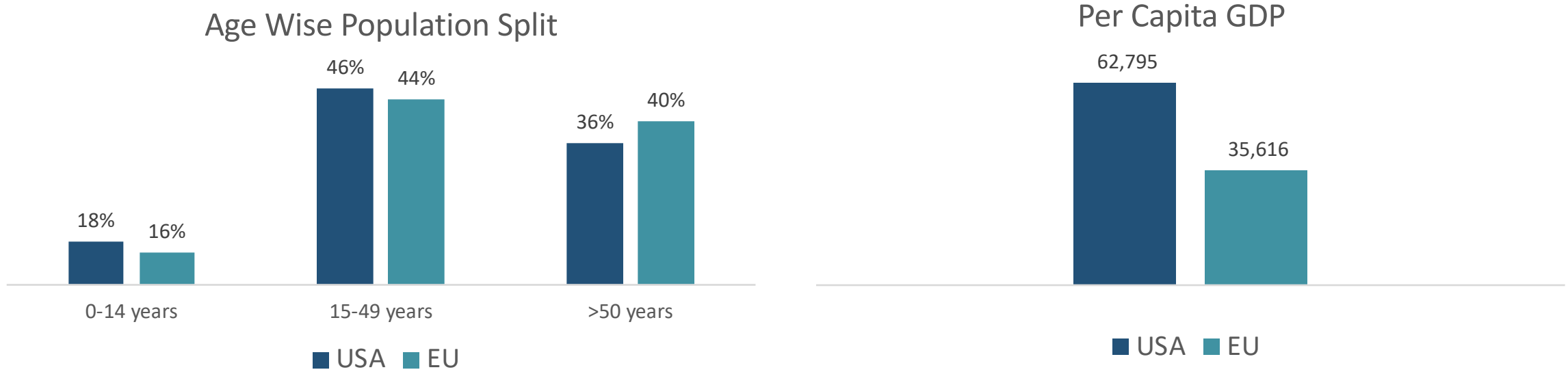
4 To 6% GDP Reduction Is Expected

Real GDP Growth Rate



Data Source: International Monetary Fund, April 2020 except stated otherwise

US Market Will Recover Faster Than EU



- US consumers are younger and more affluent compared to those in EU; and also have compulsive buying habit

Data Source: UN Population Database and World Bank

Outlook of Global Home Textiles Consumption

- Subdued demand during lockdown but **positive outlook from healthcare sector**
- **Replacement** of existing home textiles after lockdown is over, due to **health & hygiene** concerns as they are shared by multiple users
- Big box retailers have a considerable share in home textile sales are not completely closed

Replacement Tendency Post-Covid

	Households	Hospitality sector	Healthcare sector
Bed Linen	High	Very High	Very High
Bath Linen	High	Very High	Very High
Table Linen	High	High	-
Upholstery & Furnishing	High	High	High
Segment concern	Lower discretionary income	Lower revenues	-

Emerging Trends

Households

- **Anti-microbial finish** will become a standard
- Health and hygiene concerns will cause replacement buying

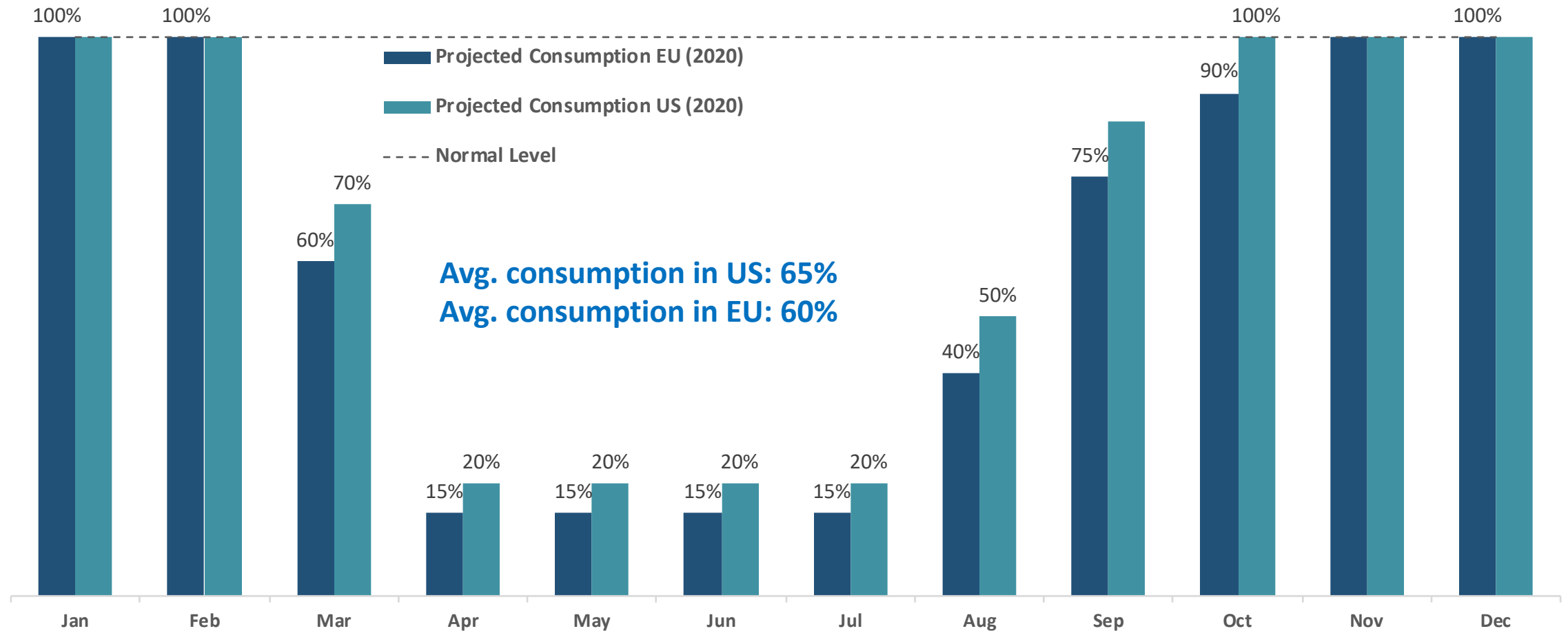
Hospitality Sector

- Bigger hotel chains will look for **disposable products, preferably circular textiles**
- Medium sized hotels will focus on laundering to **highest level of sanitization**
- Smaller sized hotel may adopt **'bring your own' or 'buy your own'** model

Healthcare Sector

- **Highest level of microbial resistance** will become a norm
- High level of funding by Governments will enable **faster replacement** of bed and bath linen items

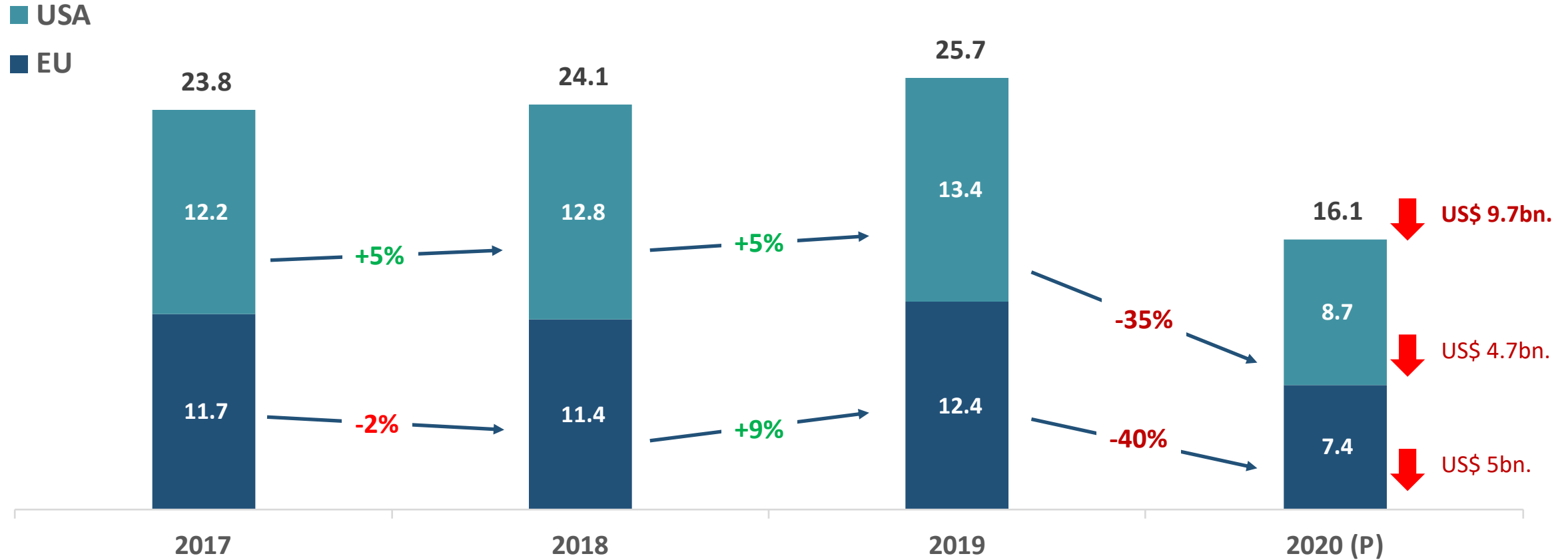
35% & 40% Market Reduction Expected in US & EU, Respectively



Market reduction: US Market – 35% and EU Market – 40%

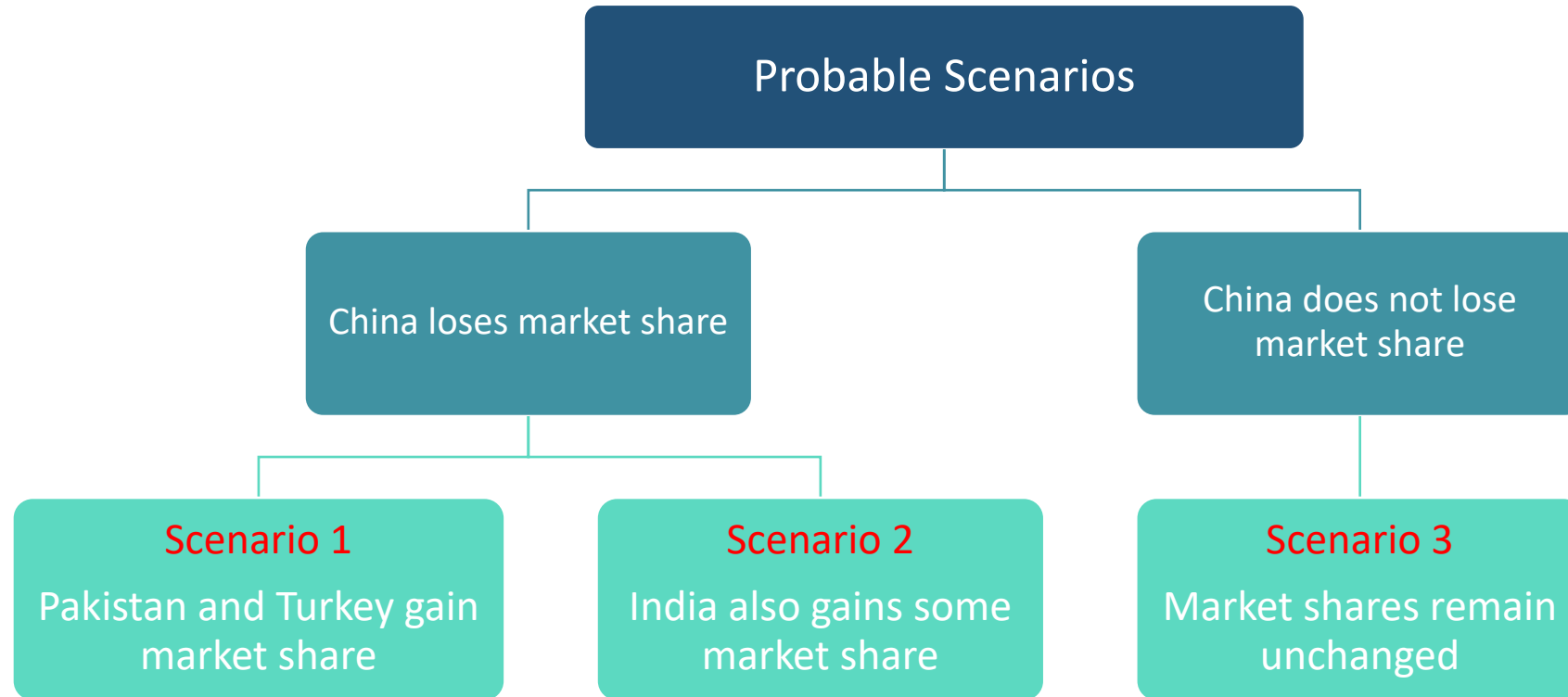
US\$ 10bn. Home Textile Imports Will Vanish From These Markets

Values in US\$ bn.



Data Source: US Office of Textile & Apparel, Eurostat, Japan Customs and Wazir Estimates

Buyers Will Increasingly Look to Replace China



- India is a strong player in global home textile trade with major share in certain categories and markets. Increasing share further can occur when Indian exporters not only improve their competitiveness in core categories but also focus on product diversification.

Indian Home Textile Export Will Reduce From 22% to 45%

Values in US\$ bn.

	2019 CY			Scenario 1		Scenario 2		Scenario 3	
SCENARIO:			Expected reduction in market in 2020	China loses share but India is not able to gain		China loses share and India is able to gain		No change in share	
Market	Export Value	Market Share		Export Value	Value Change	Export Value	Value Change	Export Value	Value Change
USA	2.2	55%	-35%	1.32	-40%	1.75	-20%	1.4	-35%
EU	0.8	20%	-40%	0.44	-45%	0.60	-25%	0.5	-40%
Others	1	25%	-30%	0.65	-35%	0.85	-15%	0.7	-30%
Total	4.1			2.4	-45%	3.2	-22%	2.6	-36%

Values are rounded off



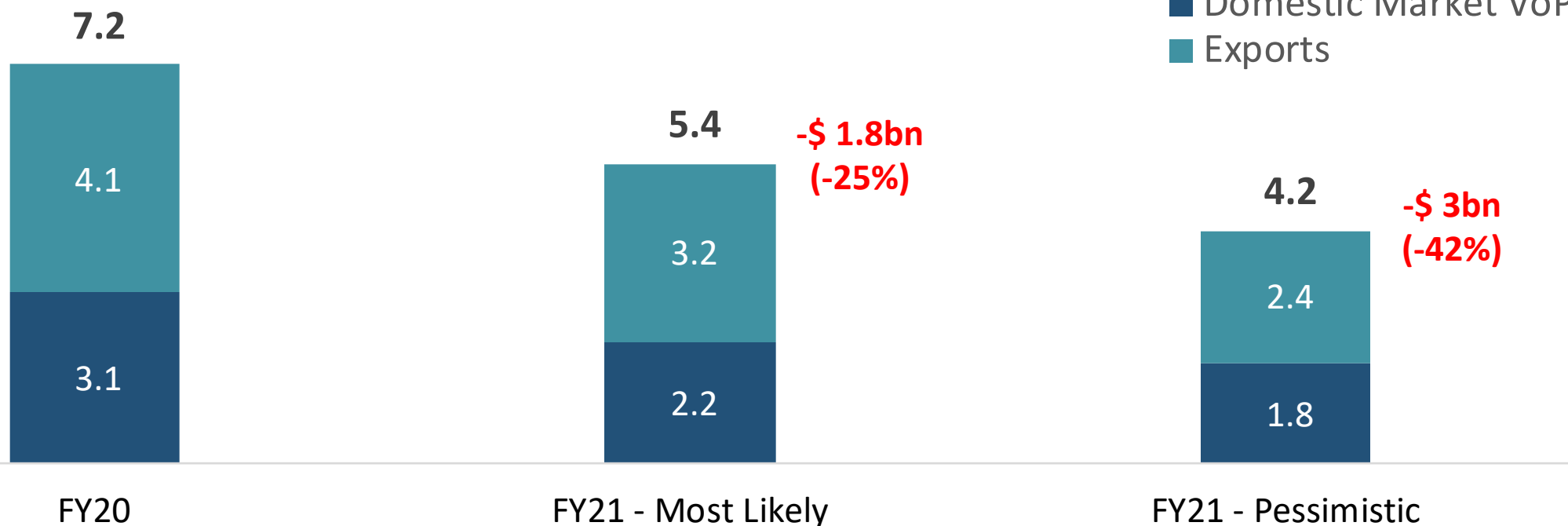
Summary & Way Forward



Indian Home Textile Industry Is Likely To Shrink 25%

Values in US\$ bn.

■ Domestic Market VoP
■ Exports



	Most Likely	Pessimistic
Exports	India will gain share vacated by China	India will lose market share
Domestic market	LD70	LD100

Emerging Changes in Global Textile and Apparel Landscape

Consumer Trends

- Health, Hygiene and Safety is the top concern
- More online presence
- Cutting down on discretionary expenditure

Retail Trends

- Rapid growth of e-commerce
- Direct to Consumer brands
- From 'Fast Fashion' to 'Slow Fashion'

Sourcing Trends

- Relocation of factories from China
- Buyers to aid development of new bases such as Ethiopia

Product Trends

- Anti-microbial finishes
- Disposable but circular products

Focus Areas for Indian Textile and Apparel Industry

- 1. Share Consolidation in Core Categories**
- 2. Product Diversification**
- 3. Export Market Diversification**
- 4. Business Consolidation with Existing Buyers**

Focus Areas for Indian Textile and Apparel Industry

1. Share Consolidation in Core Categories

- a) Focus on **manufacturing excellence to improve productivity and cost competitiveness**

Home Textile Categories Where India Has Significant Share In the US Market

Product	US Imports (US\$ mn.)	Country wise share		
		China	India	Pakistan
Cotton Terry towel	1,958	24%	37%	24%
Cotton Bed Linen	1,271	20%	58%	14%
Cotton Printed Bed Linen	335	28%	39%	22%
Blankets and traveling rugs of cotton	204	36%	39%	13%
Furnishing articles of cotton	198	46%	37%	5%

Data Source: US Office of Textile & Apparel

Focus Areas for Indian Textile and Apparel Industry

1. Share Consolidation in Core Categories

b) 3-way virtual integration model

- with a garment company to whom one was supplying fabric, or
- with a knit fabric company to whom one was supplying yarn and
- with the garment manufacturer who was finally exporting.

One of the entities takes the lead and works with partners to ensure timely delivery of goods and everyone shares the gains. For example:

- **Crew neck, polo shirts and men's innerwear** are big categories already but there is even bigger market out there, India can easily capture couple of billion dollar business easily.
- **Denim jeans** in another possibility. We have the fabric and jeans making capacity for domestic demand. Through virtual integration one can offer large quantities of jeans for export.

Focus Areas for Indian Textile and Apparel Industry

1. Share Consolidation in Core Categories

c) Need of **Value Added Products**

- Products which can offer 3 functionalities will rule the market: **Health, Hygiene and Safety**
- **Anti- Microbial** will become a standard finish in medium to premium price segment
- **Strong demand from healthcare sector** globally will throw multi-billion opportunities that can only be catered by highest level of quality and product specifications

Focus Areas for Indian Textile and Apparel Industry

2. Product Diversification – New price segments and Synthetic products

Home Textile Categories Where India Has Minimal Share In the US Market

Product	US Imports (US\$ mn.)	Country wise share		
		China	India	Pakistan
Blankets and traveling rugs of synthetic fibers	1,110	95%	2%	0%
Woven Curtains of synthetic fibers	1,099	62%	<1%	1%
MMF Bed linen	468	90%	3%	3%
MMF Surgical drapes of spunlaced or bonded	443	36%	<1%	0%
Knitted Bed linen	343	53%	4%	29%
Cotton Surgical towels and shells of pillows or quilts	297	89%	4%	0%
Knitted Furnishing articles	271	65%	3%	0%
MMF Printed Bed linen	236	94%	<1%	4%
MMF Table linen	214	74%	3%	3%
Synthetic Fibre Furnishing articles	210	84%	4%	1%

Data Source: US Office of Textile & Apparel

Focus Areas for Indian Textile and Apparel Industry

3. Export Market Diversification

Values in US\$ mn.

Market	Home Textile Imports	Imports from India	India's share
Japan	2,986	42	1.4%
Canada	1,098	131	12%
Australia	1,092	104	9.5%
Mexico	559	43	7.7%
Switzerland	526	24	4.6%
Rep. of Korea	485	12	2.5%

Data Source: UN Comtrade, Data for 2018

4. **Business Consolidation with Existing Buyers** - Increasing share with customers like **M&S, H&M and Zara**, who are already buying from India and can buy even more.

FOR FURTHER DETAILS CONTACT

Harinder Sahni

Managing Director

harinder@wazir.in

+91 98100 66246

Prashant Agarwal

Joint Managing Director

prashant@wazir.in

+91 98711 95008

Varun Vaid

Associate Director

varun@wazir.in

+91 98999 85979

Wazir Advisors Pvt. Ltd

3rd Floor , Building #115, Sector 44, Gurgaon - 122 002 Haryana- India

Tel : +91 124 4590 300