Indian textile industry impacted by high cotton prices: CITI

05
Jan '22

The skyrocketing cotton prices has stalled the growth of the textile industry in India, the Confederation of Indian Textile Industries (CITI), one of the leading industry chambers of the textile and clothing sector in the country, has said. The organisation has urged the Indian government to remove import duty on cotton to provide respite to the industry.
Currently, domestic cotton prices are ruling at a higher price compared to global markets. India's benchmark Shankar-6 cotton variety was traded at average price of ₹70,000 per candy (356 kg each) or ₹197 per kg in December, according to Fibre2Fashion's market analysis tool TexPro. In comparison, New York cotton was at US cent 113.63 per lb (₹187 per kg). However, the Cotlook A Index stood at US cent 125.85 per lb (₹207 per kg.)

The cotton price that prevailed at ₹35,000 per candy of 356 kg during September 2020, increased to ₹60,000 per candy in October 2021. In November 2021, the price varied between ₹64,500 per candy and ₹67,000 per candy, according to TexPro. The price of Gujarat Shankar-6 kapas (unginned cotton) is now ruling at ₹10,062 per quintal as against the Minimum Support Price (MSP) of ₹5,975/- per quintal.

During the last two cotton seasons, the Cotton Corporation of India (CCI) had procured around two crore bales under MSP. As the kapas price is ruling much higher than the MSP during the current season, CCI has not been able to procure any cotton this season. The Indian cotton price was fluctuating in sync with the international cotton price (New York Index and Cotlook A Index) till February 2021.

But post the Union Budget 2021-22, the Indian cotton price started ruling higher than the international price for the first time, making the exports uncompetitive resulting in hardships for the exporters in fulfilling the export commitments and taking further orders, CITI said in a press release. It is because post the Budget there is approximately 11 per cent import duty on cotton, which includes a levy of 5 per cent basic customs duty (BCD), 5 per cent Agriculture Infrastructure & Development Cess (AIDC), and 10 per cent Social Welfare Cess.

In this context, CITI chairman T Rajkumar has made an appeal to Prime Minister Narendra Modi to remove the import duty levied on cotton immediately and help the highly labour and export intensive textile industry to gain global competitiveness and prevent the industry from crisis.

In a press release, Rajkumar reiterated the continuous plea made by the textile industry since February 2021 on removing the import duty on cotton, as the same had never affected the farmers as the industry had been predominantly importing speciality cotton including Extra Long Staple (ELS) cotton, contamination-free cotton, and sustainable cotton as the same are not produced in our country to fulfil the requirements of the nominated business customers on a long-term basis.

However, currently, as the kapas price is ruling at its highest in the history, farmers are not bringing the cotton to the market resulting in short supply and surge in kapas price. Rajkumar said that though the price increase is greatly benefitting the cotton farmers, the industry is not able to pass on the hike to the end customers as the domestic cotton price has exceeded the international price.

CITI chairman said that the highly capital-intensive spinning sector, though had been retaining the same yarn price for some time hoping for a reduction in cotton prices during peak arrival season, had to increase the yarn price gradually, as the good quality cotton has surpassed ₹73,000 per candy. He said that the spinning mills would have normally built three to four months of cotton stock by the end of December, but the steep increase in price has made the mills maintain less than one month of inventory.

Rajkumar also pointed out that the increased rainfall during cotton plucking time has seriously affected the quality causing an acute shortage of good quality cotton for the Indian exporters. He added that the Rd value, the cotton brightness indicator is around 65 as against over 70 during the earlier seasons.

In comparison to normal cotton arrival of 2.3 to 2.5 lakh bales per day during December and January, during the current season it is ranging between 1.62 to 1.8 lakhs per day. As on December 31, 2021, only around 121 lakhs bales had arrived in the market as against 170 to 200 lakhs bales that normally arrived in the market during the earlier seasons. This indicates a short supply of cotton for building good quality cotton inventory to meet the export quality requirements as the consumption for three months would be around 85 lakhs bales with around 10 lakh bales for export, around 15 lakhs bales for the work-in-progress of the agriculture market, ginning and transport resulting in lower cotton stock level in all the mills, Rajkumar said.