

Textile Industry to see Squeeze in Operating Margins in June Quarter

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The survey reveals that, Indian textile companies are likely to face pressure on their operating margins in the quarter of April to June 2007. This is indicated by the dramatic fall in YnFx Margin Expectation Index which combines the perceptions of company's product pricing and the price it pays to buy raw materials. This is revealed by the latest survey by YarnsandFibers' on Business Confidence of Indian textile companies.

Crude oil prices are still volatile and occasionally spiked by geo-political development in Middle East and inventories fluctuations in world largest consumer, the USA. The situation is further aggravated by the weakening of the US Dollar globally. The Indian Rupee's 9% appreciation since January 2007 was the fastest among major currencies hitting exports. Cotton prices too are moving up while competition is keeping textile product prices under seize.

Textiles production grew by 11% y-o-y in 2006-07 measured in terms of Index of Industrial Production. This was over and above the 8% growth registered in fiscal 2005-06. In the first 11 months of 2006-07, textile exports amounted to US\$16.73 billion implying a growth of just 7.7% over the corresponding period of 2005-06. The growth appears meager compared to 21% increase recorded in 2005-06. This year, India exported raw cotton worth US\$1.11 billion. Cotton exports are unsustainable year-on-year and excluding cotton, textile exports growth works out to a mere 4%.

The Business Margin Expectation Index for the quarter ended June 2007 stands at 49.5, down from 52.1 of the previous quarter. The index is based on responses to two questions; 'In the next 3 months, do you foresee that you will be able to price your products', and 'In the next 3 months, do you see that your suppliers' price you pay will be' with the options: Higher, Lower, or Same as Today.

The Business Confidence Index (a measure of future prospect) for June 2007 quarter was down by 6 percentage points from the March quarter index. This implies that the Indian textile companies are pessimistic on their performance in the coming quarter. The Business Confidence Index for the ensuing quarter stands at 78.3 on the scale of 0 to 100, where the highest is 100, at 50 the confidence is same as today and below 50 implies lower than the current level.

In the previous quarter of January to March 2007, the textile industry was a bit nervous. The weakening of the US Dollar was a major cause of concern for textile exporters, particularly the smaller businesses. For the quarter ended March 2007, the Current Status Index stood at 73.9. For the same quarter, the Business Confidence Index (measure of future prospect) was at 84.4.

The Ninth survey has assessed the industry's feedback on the 2007 Union Budget proposal. About 83% of the respondents are content with the Budget. The Budget has met expectations to some

extend but many expected to be still better. However, respondents indicated that they expected Cenvat to be uniformly applied to the entire textile chain and equally on all fibres.

Textile companies in West and North India are less optimistic over their performance in coming quarter. These companies have failed to achieve their targets in the January to March quarter. For the quarter, the Business Confidence Index (indicator of future performance) stood 93.8 and 82.5 respectively. However, the Current Status Index was lower at 84.4 for North and 69.4 for West. For the ensuing quarter (April to June 2007), the Business Confidence Index stands at 81.3 for North and 75.0 for West. South India's textile companies are expecting better performance in April - June compared to their expectations and actual performance in the preceding quarter. The Business Confidence Index for South India stands at 79.2 as against 75.0 in the preceding quarter. The Current Status Index for January - March 2007 quarter stands at 66.7.

Power supply would be the major cause of concern of textile companies in coming quarter. In order of constraints infrastructure, finance, demand and labour were the next hurdles for growth. Power has been a continuous source of hindrance for textile companies in the past one year. The survey of corresponding period of 2006 had too indicated power and infrastructure as impediments to growth.

You may write to us at salesatynfx.com to get a copy of the detailed analyzed report.

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