

INDIAN HOME TEXTILES INDUSTRY

Home textile exporters sew a success story on pandemic-induced lifestyle changes; to clock 20-25% growth with healthy margins in FY2022

AUGUST 2021





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Demand momentum is expected to sustain during Q2-Q4 FY2022, continuing on the trend of past three quarters

Despite economies opening up, increased prevalence of stay-at-home options is supporting demand; institutional demand also likely to pick up with revival in the hospitality sector



- Home textile exports was one of the first few textile segments to recover from the impact of the pandemic last fiscal, with companies reverting to YoY growth from Q2 FY2021 itself and reporting three consecutive quarters of double-digit growth thereafter.



- For the past three quarters, sales for ICRA's sample set (comprising four large, listed players, accounting for ~35-40% share in India's home textile exports) have averaged ~25-40% higher than the 3-year average for the pre-Covid period.



- Following the healthy growth in recent quarters, ICRA expects the sample to report ~20-25% YoY growth in Q2 FY2022.



- Despite economies opening up, pandemic-induced lifestyle changes stemming from heightened hygiene and increased stay-at-home, are expected to support demand/ growth in the upcoming quarters. Institutional demand is also likely to pick up with gradual revival in the hospitality sector.



- Expectations of a strong festive demand this year, backed by favourable vaccination coverage across key markets, is reflected in the healthy order book position of Indian home textile exporters.



- ICRA's sample is projected to clock a robust double-digit growth of ~20-25% and healthy margins in FY2022. This follows a subdued 5% growth in revenues reported by the sample in FY2021, primarily due to ~40% YoY dent in performance in Q1 FY2021.

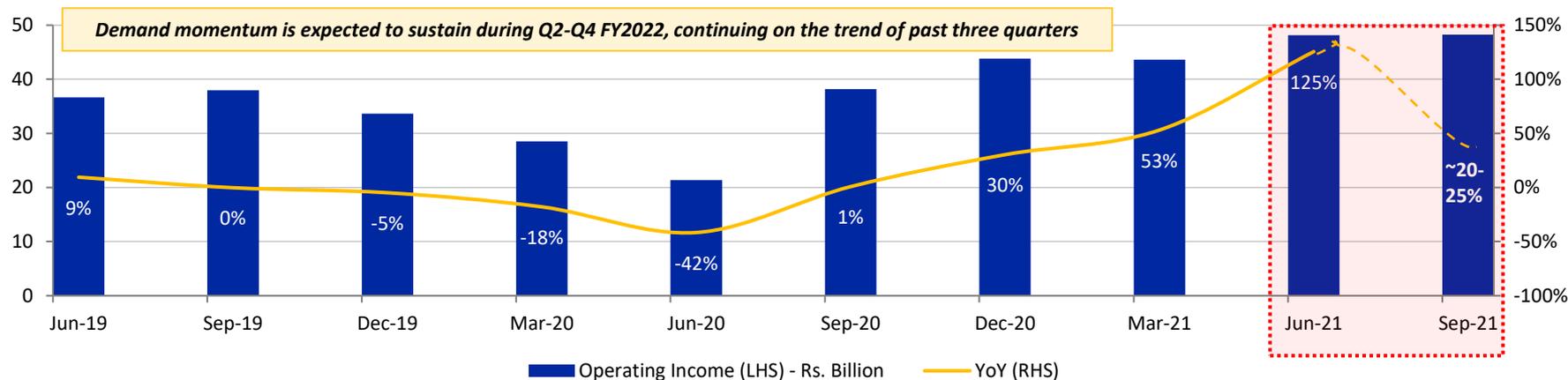


- While increased raw material and logistics costs remain a transitory drag, benefits of operating leverage and improved clarity on export incentives are expected to help offset the impact on margins.

Pandemic-induced lifestyle changes to sustain healthy growth in Q2 FY2022

Continuing with the strong performance of the past three quarters

Exhibit: Quarterly trend in performance of large Indian Home Textile exporters



Source: AceEquity, ICRA research

Note: Based on aggregates for four large, listed home textile companies, accounting for ~35-40% of India's home textile exports

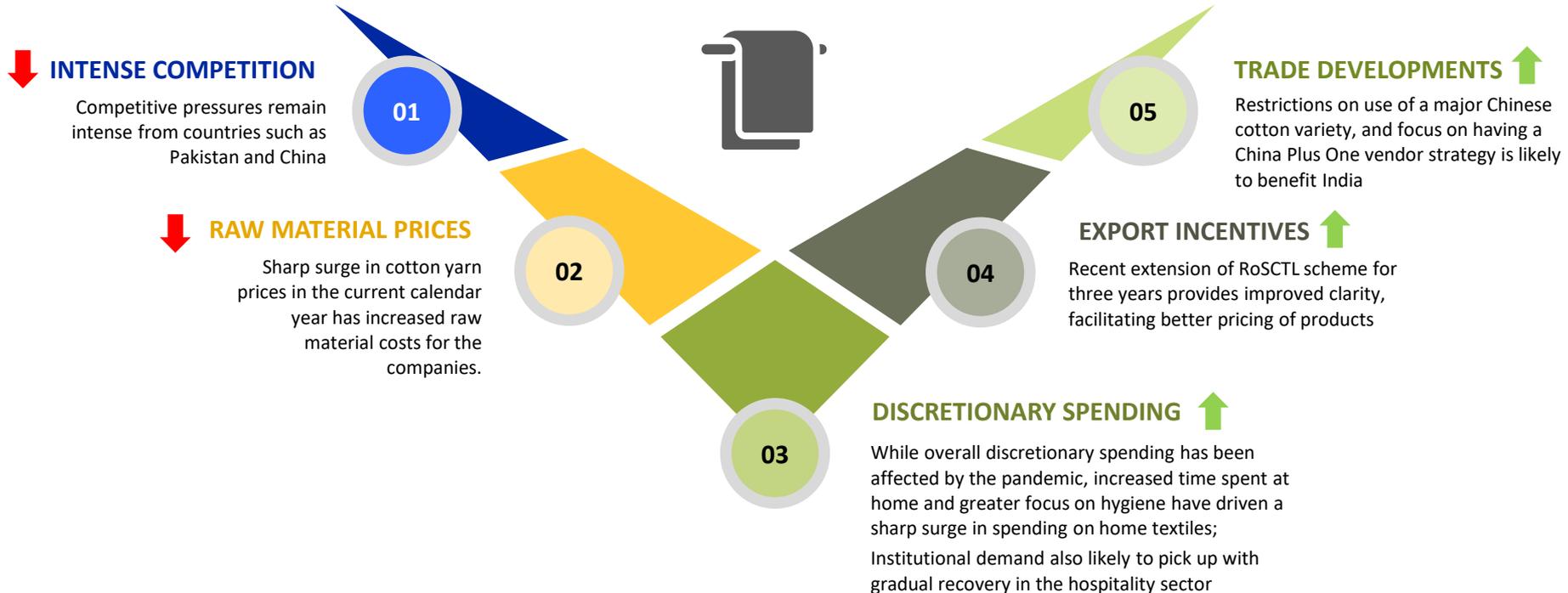
- ICRA's sample reported a robust growth of 125% YoY (~10% QoQ) in its operating income in Q1 FY2022. Besides the low base effect, owing to ~40% YoY decline in turnover in Q1 FY2021 due to the pandemic, the increase is partly explained by booking of additional export incentive income for the prior period (Q4 FY2021) in this quarter (detailed on the following slide). Nevertheless, even after adjusting for the prior period income, turnover for the sample stood ~24% higher than the pre-Covid level, viz. Q1 FY2020. This was despite some operational disruptions caused due to the second wave of the pandemic during the quarter.
- Previously, ICRA's sample had grown by ~25% YoY during the nine-month period ended March 2021. Even after adjusting for Q4 FY2020, wherein the companies had reported ~18% YoY decline because of the pandemic impact in the key countries of export, the sample reported a healthy YoY growth of ~15-20%.
- Sustained healthy demand due to pandemic-induced lifestyle changes stemming from heightened hygiene and increased stay-at-home, are expected to support growth in the upcoming quarters as well. **ICRA expects the sample to report ~20-25% YoY growth in Q2 FY2022.**

Prior period export incentive income explains spurt in margins in Q1 FY2022

In July 2021, Government of India announced extension of Rebate of State and Central Taxes & Levies (RoSCTL) scheme on made-ups (home textiles) & apparels till March 2024. In the absence of clarity on the applicable export incentive scheme/ rates earlier, many players, particularly the larger ones, did not factor in export incentive benefits, or factored in the same at lower rates in Q4 FY2021.



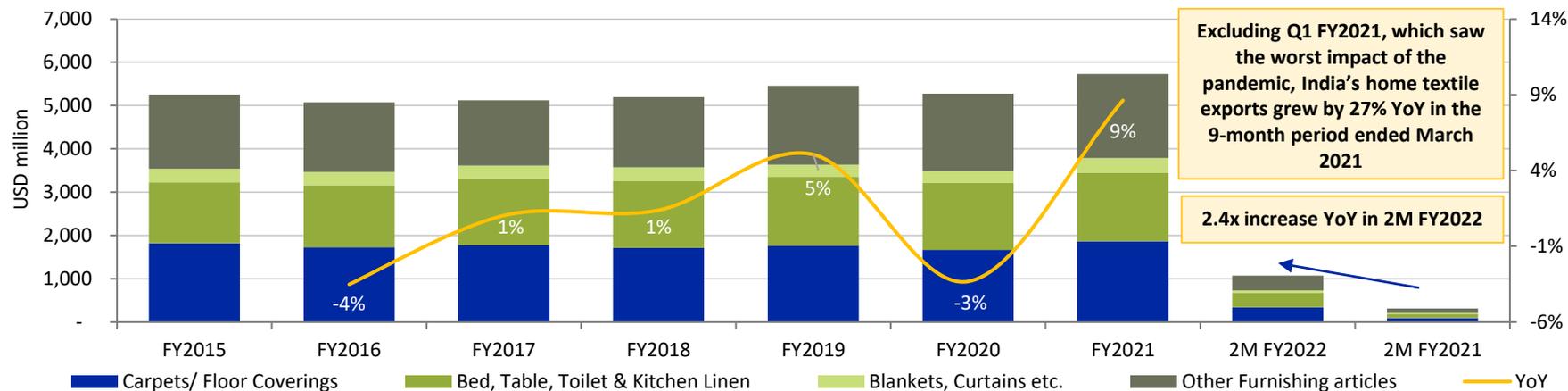
Tailwinds outweigh headwinds for home textile exporters



Continued spending on home improvements, clarity on export incentives and China Plus One strategy to be the key growth drivers

India's home textile exports grew at robust pace in FY2021, following muted trend

Exhibit: Trend in India's Annual Home Textile Exports – Product category wise

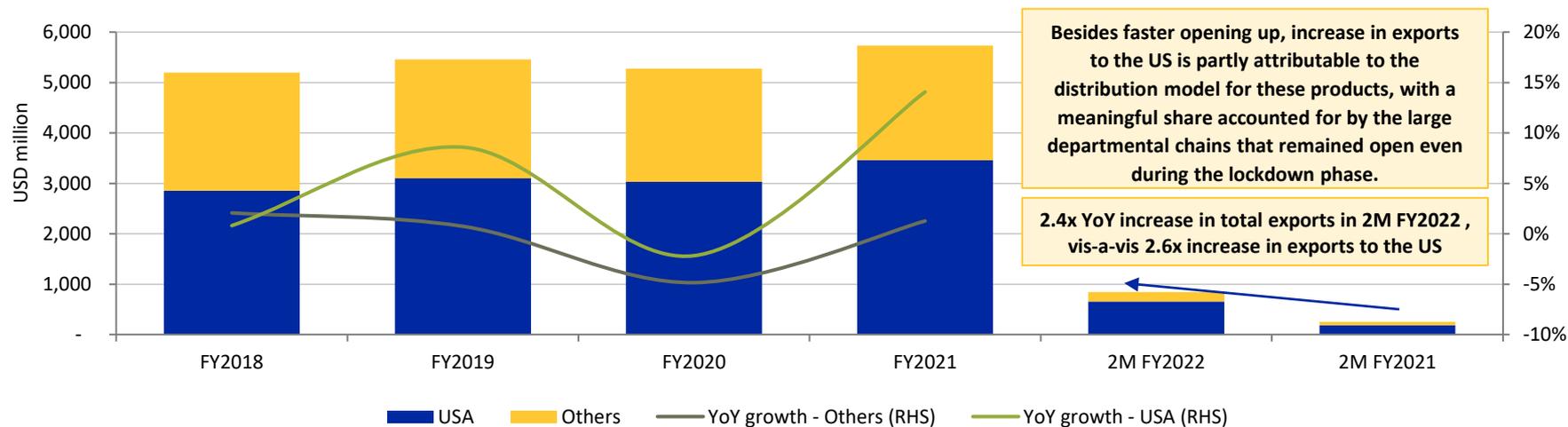


Source: Department of Commerce, ICRA research

- India's home textile exports grew at a healthy rate of 9% in FY2021 despite pandemic-led operational disruptions. This followed a muted trend in the previous years, wherein India's home textile exports increased by 1%, 1% and 5% in FY2017, FY2018 and FY2019 respectively, before shrinking by 3% in FY2020.
- Amid the product categories, blankets, curtains etc. remained the fastest growing segment with a 28% growth in FY2021, followed by carpets and floor coverings with a 12% growth. Value-wise, carpets & floor coverings remain the largest product category in exports with ~33% share in FY2021, followed by bed/ table/ toilet/ kitchen linen with ~27% share.
- In the first two months of the current fiscal, blankets & curtains reported the lowest growth (80% YoY, on a low base), while exports in other segments more than trebled vis-à-vis corresponding period of last year.

US remains the key market for Indian home textiles; continues to drive growth

Exhibit: Trend in India's Annual Home Textile Exports – Region wise



Source: Department of Commerce, ICRA research

01

US remains the largest market for Indian home textile exports, with ~60% share in FY2021

02

While exports to the US have grown at a CAGR of 4% between FY2015 and FY2021, exports to the other regions have contracted

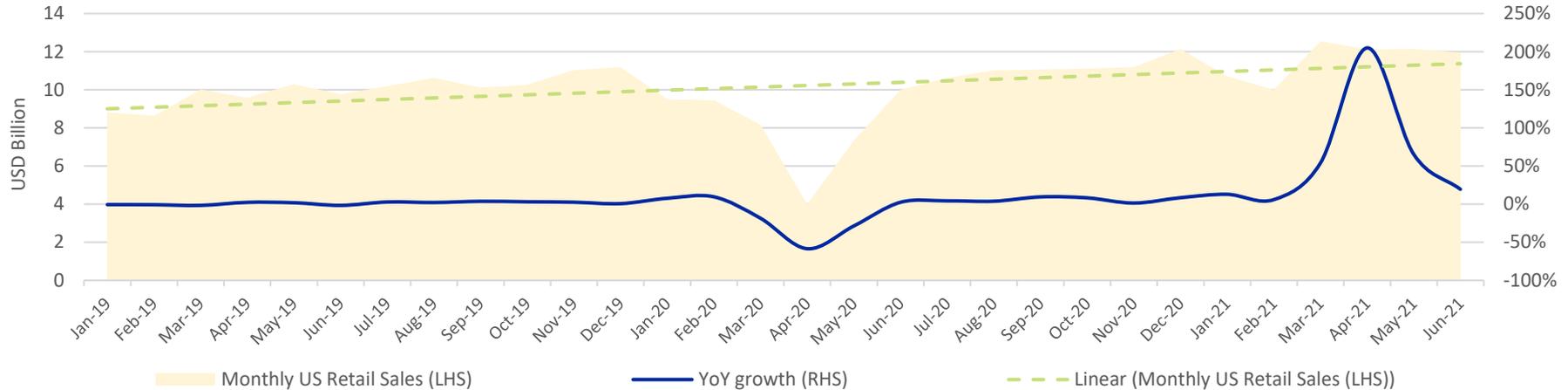
03

In 2M FY2022, all regions have reported a fairly healthy recovery

04

Given the high dependence on the US market, trend in retail sales there remains a key demand indicator

Exhibit: Monthly US Retail Sales Data – Furniture and Home Furnishing Store Sales

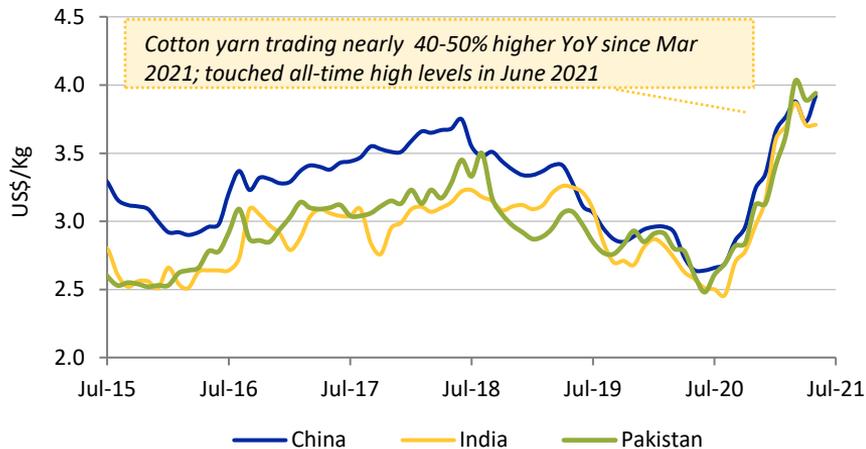


Source: United States Census Bureau, ICRA research

- After reporting a sharp dip between March and May 2020, US retail sales for furniture and home furnishing stores reported a strong recovery and reverted to pre-Covid levels in July 2020 itself.
- Besides increased time spent at home, which triggered higher spending on home improvements, sales of home textile products through large departmental chains supported the recovery in this segment, as these stores remained open even during the lockdown phase.
- The sales have remained robust since July 2020 and better than the previous three-year average levels.

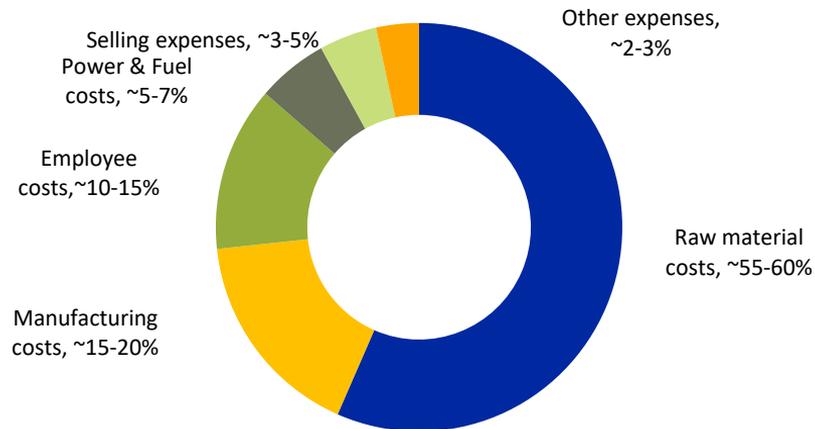
Cotton yarn prices at multi-year highs; exerting cost pressures

Exhibit: Trend in domestic and international cotton yarn prices



Source: EmergingTextiles.com, ICRA research

Exhibit: Typical cost structure for home textile exporters



Source: AceEquity, ICRA research

Note: Based on ICRA's sample of large home textile companies

- Cotton yarn prices have touched all-time highs in recent months, averaging ~3% higher in Q1 FY2022 vis-à-vis Q4 FY2021, and ~28% higher vis-à-vis FY2021. Thereafter, cotton yarn prices moderated marginally by ~1% in July 2021, but stood ~52% higher on a YoY basis. While cotton yarn prices are expected to moderate in H2 FY2022 with the demand-supply scenario normalising, increase in yarn prices has exerted some pressure on profitability of downstream players, especially players not backward integrated into spinning.
- Margins for home textile exporters moderated on a sequential basis in Q1 FY2022 (adjusted for export incentives), though remained at healthy levels. Re-negotiation of product prices amid sustained cost pressures, with benefits of increased scale are expected to help companies maintain profitability.

Exhibit: Key variables for Home Textile Exporters

Financial Performance

ICRA's sample projected to clock a **robust double-digit growth of ~20-25%** in FY2022 primarily led by volumes, besides 5-7% increase in realisations; Margins to remain healthy

ORDER BOOK

Order books remain robust on expectation of a strong festive demand this year, backed by favourable vaccination coverage across key markets; Larger exporters **likely to rely more on job-work/ outsourcing to fulfil delivery commitments**



EXPORT DEMAND

Despite economies opening up, increased prevalence of stay-at-home options is supporting demand; **institutional demand also likely to pick up** with revival in the hospitality sector

REALISATIONS

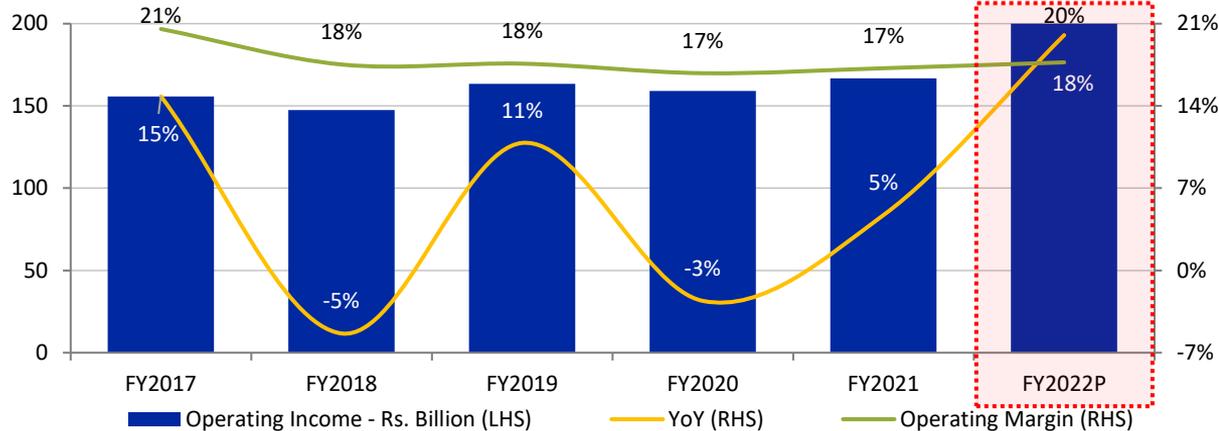
Re-negotiation of product prices amid sustained raw material cost pressures is likely to protect margins from Q2 FY2022 onwards

EXPORT INCENTIVES

Clarity on RoSCTL scheme would enable exporters to effectively price their products without worrying about retrospective changes

Outlook: Financial performance projected to improve in FY2022

Exhibit: Projected revenues and profitability for ICRA's sample*



- ICRA expects home textile companies to report a healthy double-digit growth in revenues in FY2022, following a marginal 5% growth last year (due to ~40% YoY dent in performance in Q1 FY2021). Besides sustained healthy demand for home textile products, China plus one-vendor strategy is expected to support volumetric growth for Indian exporters. While growth is likely to be primarily volume led, realisations are also expected to be renegotiated, given the sustained cost-side pressures.
- While increased raw material and logistics costs remain a transitory drag, benefits of operating leverage, clarity on export incentive structure, and booking of additional export incentives for Q4 FY2021 (which were not booked earlier, pending clarity), are expected to result in a marginal improvement in profitability.



Robust order-book positions



Clarity on export incentive schemes



Operating leverage & retrospective export incentive benefits



Renegotiated realisations to factor in higher material costs

Source: Ace Equity, Annual Reports and Published Financial Results, ICRA Research

* Comprising four large, listed home textile exporters



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