

# Indian Cotton Spinning Industry: Trends & Outlook

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**Despite lower realisations, increase  
in yarn export volumes counter-  
balances weak domestic demand**

**JANUARY 2024**





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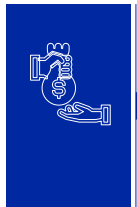
*Indian cotton yarn exports to report a recovery in FY2024 post a decline in the previous year owing to increase in demand from Bangladesh and China with Indian cotton yarn prices being competitive.*



- Domestic cotton fibre prices, after witnessing a lifetime high in H1 FY2023, declined steadily in H2 FY2023. In 9M FY2024, cotton fibre prices declined by ~25% in comparison with the average cotton prices in FY2023 on account of a weak operating environment.
- Share of yarn exports to China had been on the rise since January 2023 post lifting of Covid-related restrictions in the country and over concerns on the use of Xinjiang cotton. Overall share of cotton yarn exports to China rose to 26% in 7M FY2024 against 11% in FY2023. Bangladesh continues to be India's leading export destination with a share of 31% in 7M FY2024 against 37% in FY2023.
- Bangladesh, China, and Vietnam account for ~60% of Indian cotton yarn exports. No immediate impact is expected in cotton yarn exports due to the Red Sea conflicts. However, sustained continuance of these conflicts would have a direct impact on apparel export volumes and a consequent impact on cotton yarn export volumes and realisations.
- Cotton yarn output fell by ~15% in FY2023 on a YoY basis owing to lower demand from garment manufacturers. Production volumes rose by ~15% on a YoY basis in 7M FY2024 with moderation in cotton fibre prices. Despite a drop in cotton yarn realisations and pressure on margins, cotton spinners have increased their production volumes towards covering their fixed overheads. In the current fiscal, Indian cotton yarn prices have remained competitive in comparison with the global cotton yarn prices.
- Cotton fibre production for CY2024 is projected to dip by 6% (estimates by office of textile commissioner) primarily due to reduction in cotton sown area amid uneven rainfall.
- The gross contribution margins for the spinners reached a multi-year low in August 2023 and improved marginally by 9% in November 2023. In FY2023, after registering an improvement till Q3 FY2023, the gross contribution margins declined subsequently in Q4 FY2023 and 8M FY2024. A modest increase in gross contribution margins is expected in Q4 FY2024, however, ICRA expects cotton yarn gross contribution to contract in FY2024 over FY2023 levels.

# Highlights on financial performance

*Despite likely moderation in debt-funded capex in FY2024, ICRA expects the capitalisation and the coverage metrics for spinning entities to weaken due to lower operating profitability; a recovery is expected in FY2025.*



ICRA expects domestic spinners to report a volume growth of 12-14% in FY2024 on a YoY basis, primarily through increase in export volumes (to Bangladesh and China) owing to competitive yarn prices and a likely improvement in demand from the apparel companies for spring/summer season in the US and the EU regions.



ICRA expects the sample set of companies to report a 9-10% decline in revenues and 200-250 bps fall in margins in FY2024 amid a sharp drop in realisation and lower gross contribution level. ICRA expects the gross contribution on an absolute basis to stabilise at Rs.95-100 per kg for the remainder of FY2024, post a 9% recovery witnessed in November 2023 (Rs. 89 per kg in November 2023) against one of the lowest gross contribution levels (in the last five years) witnessed in August 2023



The industry had undertaken high debt-funded capex in FY2023, anticipating an improvement in demand. The spinners have now halted major capex plans in the near term due to limited order visibility and lower contribution levels in FY2024. With a weak operating profitability, the interest coverage ratio is expected to remain moderate (4.2x in FY2024 against 6.2x in FY2023) along with weaker debt-to-OPBDITA ratio (3.4x in FY2024 against 2.6x in FY2023). ICRA, however, expects a pick-up in capex announcement for FY2025, driven by the regular need to modernise machinery and flow of demand from H2 FY2024 owing to the China plus One strategy of an alternative manufacturing location to China.

## 1 Executive Summary & Outlook



## 2 Cotton Spinning: Performance Trends & Outlook



## 3 Spinning Sector: Performance Drivers



## 4 Cotton Scenario: Global & Domestic



## 5 Credit Trends & Outlook



## 6 Peer Comparison & Company Section





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