



Indian Cotton Spinning Industry: Trends & Outlook

**Gradual recovery in domestic
demand and yarn realisation in H1
FY2025**

JUNE 2024



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Gradual improvement in domestic demand to support the recovery in FY2025

Indian cotton yarn exports are expected to grow at a modest pace in FY2025, post a robust recovery in FY2024. Recovery driven by increase in demand from Bangladesh and China



- In FY2024, the overall cotton yarn production in India rose by ~9% YoY. While the domestic consumption (which represents over 70% of production) fell by ~10% YoY due to subdued demand, yarn exports rose by 83% YoY in FY2024. Share of yarn exports rose ~32% of total production in FY2024 (against 19% in FY2023).



- Since January 2023, post lifting of the Covid-related restrictions in China and concerns on the use of Xinjiang cotton, cotton yarn exports to China had been on the rise. Share of exports to China rose to 21% (against 10% in FY2023). Bangladesh, China, and Vietnam collectively account for ~60% of Indian cotton yarn exports.



- Domestic cotton fibre prices, after witnessing a record high levels in H1 FY2023, fell gradually in H2 FY2023. In FY2024, cotton fibre prices declined by ~25% in comparison to the average cotton prices in FY2023 amidst weak demand.



- Cotton fibre production for CYi 2024 is estimated to fall by 6% (by the office of textile commissioner) due to reduction in sown area amid uneven rainfall. However, carry-over surplus of cotton to support consumption in CYi 2024.



- As a result of subdued domestic demand, gross contribution levels declined in FY2024, due to moderation in cotton yarn prices witnessed from H2 FY2023. In Apr-May 2024, the gross contribution levels recovered by ~5% (on YoY basis), showing initial signs of a muted recovery after encountering weak contributions in FY2024. This trend is expected to continue for the remainder of FY2025, driven by moderate recovery in domestic demand and modest growth in yarn exports as Indian prices remain competitive.



- No major impact was witnessed in cotton yarn exports due to the Red Sea conflicts as exports are mainly done to Bangladesh, China, and Vietnam. Sustained continuance of the conflict would, however, have a direct impact on apparel export volumes and a consequent impact on cotton yarn export volumes and realisations.

Highlights on financial performance

ICRA expects the capitalisation and the coverage metrics for spinning entities to improve in FY2025 with a marginal improvement in operating profitability



- ICRA expects domestic spinners to report a volume growth of 4-6% in FY2025 on a YoY basis, primarily through increase in export volumes (to Bangladesh and China) owing to competitive yarn prices and muted recovery in domestic demand from the apparel companies for the summer/ fall season in the US and the EU regions against a growth of 9% witnessed in FY2024 (on a lower base).



- ICRA expects its sample set of 13 companies to report a 6-8% growth in revenues and 100-150 bps improvement in margins in FY2025 driven by marginal improvement in realisation and improvement in gross contribution levels. ICRA expects the gross contribution on an absolute basis is likely to stabilise at Rs.100-105 per kg for FY2025 (vs. Rs. 90 per kg in FY2024).



- The industry had undertaken moderate debt-funded capex in FY2024, mainly relating to capacity additions done by select players and alternate power generation capacities added by certain others, as a cost-saving measure. Although no major capacity additions are expected in FY2025, with likely recovery in demand, minimal capex spending is anticipated.



- With improvement in operating margins, the interest coverage ratio and debt/ OPBIDTA metrics are expected to improve to 4.8 times and 2.7x in FY2025, against 4.1x and 3.7x in FY2024, respectively.



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