

Indian Cotton Spinning Industry: Trends & Outlook

**Domestic demand and spot
contribution margins have shown a
gradual recovery**

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Bps: Basis points (one basis point is equivalent to one hundredth of a percent)

CAI: Cotton Association of India. All segments of the cotton trade and textile industry are represented in CAI

COCP: Committee on Cotton Production and Consumption. Advises the Indian government on matters pertaining to production, consumption and marketing of cotton

CCI: Cotton Corporation of India Limited. A Government of India agency, engaged in trade, procurement, and export of cotton

Cotlook A: An index representative of level of offering prices on the international raw cotton market. It is an average of the cheapest five quotations from a selection of upland cottons traded internationally

CY: Calendar Year

CY_i: Indian cotton year (CY_i) starts in October and ends in September.

CY_g: Global/ International cotton year (CY_g) starts in August and ends in July

ICAC: International Cotton Advisory Committee. An association of governments of cotton producing, consuming and trading countries

MSP: Minimum support price. A form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices

NCDEX: National Commodity & Derivatives Exchange. An on-line multi commodity exchange in India

QoQ: Quarter on quarter; **YoY :** Year on Year

RoDTEP: Remission of Duties and Taxes on Exported Products

TUFS: Technology Upgradation Fund Scheme

USDA: The United States Department of Agriculture. Responsible for developing and executing federal laws related to farming, agriculture, forestry, and food

PSF: Polyester Staple Fibre



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Gradual improvement in domestic demand and moderation in cotton fibre prices shall support a 100-150 bps YoY expansion in margins for cotton spinners in FY2025. However, a decline in cotton fibre output in CY2025 could exert some pressure on the margins over the medium term.

Improvement in domestic demand for cotton yarn is likely to offset the moderation in cotton yarn exports to China.



- Indian cotton spinning industry has been on a recovery phase in recent quarters following subdued demand conditions in the last two years.



- After a 9% YoY increase in FY2024, cotton yarn production in India declined marginally by ~1.1% YoY in H1 FY2025. While domestic consumption (which represents over 70% of production) rose by ~2% YoY supported by a gradual recovery in domestic demand, yarn exports fell by ~8% YoY due to weak offtake from China. Cotton yarn demand from domestic spinners witnessed a gradual recovery in FY2025 and is likely to remain favourable in FY2026 amid an improving global apparel demand and the China plus one effect.



- The share of yarn exports reduced to ~30% of the total production in H1 FY2025 (against 32% in H1 FY2024). Bangladesh, China, and Vietnam collectively account for ~58% of Indian cotton yarn exports. Exports to China contracted by 76% in H1 FY2025 from the high base of the previous year due to tepid foreign demand for China's apparel and increased domestic cotton consumption.



- While the increase in cotton yarn exports to Bangladesh offset the decline in volumes sold to China, sustenance of the same remains to be seen due to the recent geopolitical tensions in the country. The share of exports to Bangladesh rose to 47% in H1 FY2025 (~35% in FY2024 and ~28% in H1 FY24).



- Domestic cotton fibre prices, after witnessing a record high in FY2023, declined by ~25% in FY2024 (on a YoY basis) due to weak demand. The prices remain low, falling by ~2% YoY in 9M FY2025, although they are expected to rise in FY2026.



- A 10.4% reduction in cotton sowing area amid an erratic rainfall and shift to other profitable crops resulted in ~8% dip in cotton output in CY2025 (first advance estimates). There was a sharp rise in imports amid low cotton output. A contraction in cotton output is likely to moderate the rise in cotton fibre prices over the near to medium term.

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



- While cotton prices have been subdued, cotton yarn realisations have gradually improved with better demand. An improvement in yarn realisation coupled with lower cotton fibre prices led to a rise in the average spot contribution margins to Rs. 97/kg in 8m FY2025, over Rs. 90/kg in FY2024.



- With expanding spot contributions, domestic spinners are likely to witness an expansion in margins in FY2025. However, the lower cotton production in CY2025 and increase in MSP prices shall moderate the profit margins of spinners over the medium term. Their ability to pass on the increase in cotton fibre prices remains crucial for maintaining their profitability.



- ICRA expects domestic spinners to report a volume growth of 4-6% in FY2025 on a YoY basis, primarily due to recovery in domestic demand from apparel companies for the spring/summer season in the US and the EU regions against a growth of 9% 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 a marginal improvement in realisation as well as in the gross contribution levels. ICRA anticipates the gross contribution on an absolute basis to stabilise at Rs. 100-105 per kg for FY2025 (over Rs. 90 per kg in FY2024).



- The industry had undertaken moderate debt-funded capex in FY2024, mainly relating to capacity additions by select players and alternative 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 shall improve to 4.5-5.0 times and 2.5-3.0x in FY2025, against 4.1x and 3.7x in FY2024, respectively.



ICRA

Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Senior Vice President & Group Head	shamsherd@icraindia.com	0124-4545328
Srikumar Krishnamurthy	Senior Vice President & Co-Group Head	ksrikumar@icraindia.com	044-45964318
G S Ramakrishnan	Assistant Vice President & Sector Head	g.ramakrishnan@icraindia.com	044-4596 4300
Geetika Mamtani	Senior Analyst	geetika.mamtani@icraindia.com	022-61693330
Vilasagaram Nandakishore	Senior Analyst	vilasagaram.nandakishore@icraindia.com	040-6939 6407





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





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