

Dear Friends,

In these times of distress and possibly the worst ever period for spinning industry (atleast seen by me), I thought I must share my mind.

Indian spinners have been going through a very difficult time over the last 2 years despite cotton prices being reasonably low due to a demand supply imbalance created out of new spinning mills coming up in some States (viable due to incentives rather than fundamentals) and slow demand locally due to two successive poor monsoons and overall subdued sentiments in the globe. Exports have failed to cheer us up due to the disadvantage created by FTAs of our competitors with the big buying nations and we as usual not able to break any ice anywhere.

Cotton yarn has suffered further as the Government felt that yarn needs no incentives. Its true that yarn needs no more any investment incentives but it surely needs incentives to export. Requests went unheeded by the Govt from various Associations because they didn't go into the details of demand – supply minutely or tried to understand the plight of spinning industry (though its classified as a stress industry by the Banking sector).

We live with hope that things will improve, however instead of seeing green shoots suddenly the industry faces a dark black tunnel through which many may not get through to see the light of the day.

In my business life, I have not seen a worse situation than this, where such a big disparity is there between spot cotton prices and yarn prices. The more disturbing fact is that no yarn buyer is hassled or is rushing to buy yarn — they know cotton prices have moved 30% and yarn just 15% — still no anxiety !!!

It's a serious crisis, hence kindly read me out (even if you disagree or find it boring)

Why are we here today ?

- Unplanned and illogical incentives being given for building spinning capacities (so much that it's practically irresistible for one to not invest (Central Govt has finally understood, but State Governments still haven't)
- Lack of any authentic crop and stock data in India despite being the 2nd largest producer and consumer.
- Wrong and misleading cotton estimates from leading agencies /associations — gave a false notion that the country had enough cotton — agree its difficult to estimate, but if so then better not to give estimates
- Crop size in 2015-16 season is turning out to be substantially lower than estimated, catching spinners on the wrong foot.
- The Government turning a blind eye to the spinning industry without understanding the facts
 - TUF payments delayed and companies penalised for system errors by Banks in filing TUF claims
 - Retrospective amendments made to deny benefits under Incremental Export Incentives – industry had to goto Court for justice
 - Export incentives given to all segments of the industry excepting Yarn under MEIS and subvention — does the end user industry in India have the capacity to consume Indian yarn ?? India leads in exports not because we are the best, but because spinners have no choice but to undercut and sell yarn in exports to offload the 30% excess spinning capacity

- The Rupee has weakened much less than most other currencies, even yuan has depreciated more over the last one year !!!
- Domestic consumption has remain muted due to 2 consecutive poor monsoons, fabric imports, and overall low sentiment in the economy

What can spinners do today ?

Obviously there are no easy answers or perfect solutions. Further would depend on the situation of a mill but yes those with cotton should capitalise on this opportunity to make handsome profits and strengthen their Balance Sheets (remember in last few years those who stocked cotton have suffered also !!!). However the reality is that most mills are not well covered and the median of mills coverage would be from 15 days to 45 days. Adjusting for yarn sold, the cotton available will be for maximum 15 days.

Sharing some options which mills may consider to at least reduce the impact of the crisis.

- If yarn is available or selling at cash loss position — isn't it better to stock yarn instead of cotton ?? Sounds absurd, but do give it a thought. Cotton can be stocked to push up prices, why cant yarn be stocked !!! Why cant we use our cotton limits for yarn ??
- If all mills decide to keep 15 days yarn stock — it would have a double impact — yarn prices would move up and mills would stock less cotton leading to less pressure on cotton demand
- Spinners need to push their respective associations to knock at the Government door loudly and show them the truth. We need to demand for similar benefits as the rest of the Textile Chain - don't support further investments but save those who are there.
- State Governments need to be approached by the Textile Ministry to create a balanced policy – Governments are telling farmers to reduce cotton production, but are incentivising mills to come up. A serious look has to be taken at the overall Balance sheet of the country.
- There are various rumours floating in market that we shall not have cotton in August/September to run the mills — due to lack of information no one can be sure of exact situation, however I am giving my own calculated Balance Sheet (October 2015- September 2016) in Lac Bales for consideration.

Opening Stock 60
Production 320
Imports 15
Total Supplies 395
Exports 70
Consumption 300
Total Utilisation 370
Closing Stock 25

It's surely tight, but not so bad that mills have to close down due to cotton. Today cotton going up due to sentiments, as buying demand isn't more than 50000 to 60000 bales per day while stock in hand is not less than 40 lac bales — its just a matter of perception as to who feels when they should offload. The day 10% of the stockists decide its time to sell, we shall see a correction (however as ending Balance Sheet is tight and monsoons are a bit delayed, hence any steep correction may not happen and may also not be desirable as would impact the yarn momentum leaving mills in a worse scenario).

A cautious cotton purchase and using the limits for stocking yarn till it reaches a reasonable level, could be the answer to save the industry. Unfortunately the cotton trade keeps floating news but spinner stay muted and just looking in despair and complaining amongst themselves without taking any concrete action.

We are anyway in a quagmire, very little visible hope around (anyway hope is hardly a strategy). So lets join together and see what best can be done to get out of the situation. I am not writing this letter to offer any fixed solutions, its more to prick all spinners to come together and think of possible solutions and strategies to overcome this crisis in the best possible manner.

I look forward to Associations getting members together and let this letter of mine be a starting point for discussion.

With Best Regards,

Sanjay K Jain
Managing Director, T T Ltd