

# The Next Level of Textiles

To compete with MNCs, Indian SMEs need to collaborate and reap maximum benefits from government schemes

**I**N the last few decades, the Indian textile industry has emerged as one of the most significant contributors to the country's economy and is one of the main foreign exchange earning sectors. According to a report by the Ministry of Textiles, Government of India, the industry currently accounts for around 4% of the nation's GDP. The report also reveals that SMEs in this sector currently employ over 35 million people. Thus, strengthening the textile industry and uplifting the SME players will play a significant role in the sustainable development of the country's economy. This will also be critical in reinforcing India's position on the global trade platform.

However, with the introduction of the Agreement on Textiles and Clothing (ATC) by the WTO in 1995 and following the integration of the textiles and clothing sector under General Agreement on Tariffs and Trade (GATT) in 2005, the sector has undergone a significant transformation. During the WTO regime, a huge number of MNCs entered the Indian textile market. This has raised the competition level, especially for the SMEs. According to Navneet Vijayvergiya, Director, PARTS India, a small-level textile player, "In the last couple of years, MNCs—with huge stacks of cash, superior technology and efficient supply chains—have reaped the maximum benefits from government incentives, largely overtaking SMEs in the competition."

## The Roadblocks

Under the WTO regime, textiles SMEs in India face a huge number of challenges. The foremost challenge is tough competition with MNCs, which has become fiercer due to lack of capital investment. "The lack of credits has restricted SMEs growth in terms of technology and expansion, which has restricted their level of competence as compared to MNCs," says Arvind Singhal, Chairman and MD, Technopak, a well-known business consulting firm.

Currently, SMEs are finding it difficult to obtain institutional credit due to their inability to provide collateral and non-compliance with documentation requirements. This has become a more serious issue for SMEs due to the demolition of government support structures in post-WTO agreement era. Apart from this, other factors hindering the growth of textile SMEs include technological obsolescence, uncompetitive pricing, poor quality, labour legislation, lack of awareness, costly credits, lack of collaboration, etc. Moreover, due to the elimination of quantitative restrictions, textile SMEs is also subjected to tough foreign competition as a result of low-cost imports from neighbouring countries.



## Weaving Strategies

A few strategies which need to be adopted to overcome the challenges faced by Indian textile SMEs are discussed below.

## Technology Upgradation Fund Scheme (TUFs)

The government needs to upgrade TUFs to encourage investments to bring in technological developments in the industry. So far, TUFs has benefited the textile and apparel industry through leveraging a subsidy of 11.02 times—that is, for every rupee spent by the government under TUFs, the industry invests Rs 11.02. LR Katrat, MD and CEO, Katlax Enterprises Pvt Ltd, an automation solution provider for the textile industry, opines, "Technology-specific schemes such as TUFs should be

## SYNOPSIS

- Lack of credit has restricted SMEs growth in terms of technology and expansion.
- FDIs are needed to develop large-scale capacities and upgrade the textile manufacturing facilities.
- Infrastructure schemes like the Scheme for Integrated Textile Parks (SITP) need to be encouraged to enhance SME competence.

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## Textile Infrastructure Schemes

The government needs to bring in more infrastructure schemes like the Scheme for Integrated Textile Parks (SITP) which has been immensely successful. Launched as a merger of the Scheme for Apparel Parks for Exports (SAPE) and the Textile Centre Infrastructure Development Scheme (TCIDS), SITP brought in an investment of Rs 625 crore for the development of 25 textile parks in two years. Based on the public-private partnership model, the scheme also allowed textile SMEs to meet international environmental and social standards in their operations.

## Foreign Direct Investment (FDI)

To move ahead in the competition, the Indian textile industry needs to attract more FDI, for which the government will have to take initiatives. Currently, Indian players are financially incapable of investing the required capital, while the need for investment is growing. FDI is needed to develop large-scale capacities and upgrade the textile manufacturing facilities. Indian SMEs need FDI in areas such as weaving and processing, home textiles, logistics and machinery manufacturing, especially to compete with tough competitors such as China.

## Consolidation and Integration

SME collaboration is the need of the hour to balance the growing technological and monetary gap between standalone SMEs and MNCs in the post-WTO agreement era. To compete with bigger textile players, SMEs will have to collaborate and align their strategies towards the optimal use of their value chains across the vertical. For example, Alok Industries, a mid-level textile player has collaborated with Welspun Group to develop global competence in spinning, weaving and finishing.

## In a Nutshell

The Indian textile industry has a great role in the economic status of the country, and since SMEs make for a huge percentage of the industry, it is important to look after their interests to scale up the overall performance of the industry. With the trade agreements signed under the WTO regime, a number of initiatives must be taken to enhance SMEs competence in the presence of global players.