Indian Cotton Textile Consumption in the Post-MFA Era

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Cotton and Fibers Outlook
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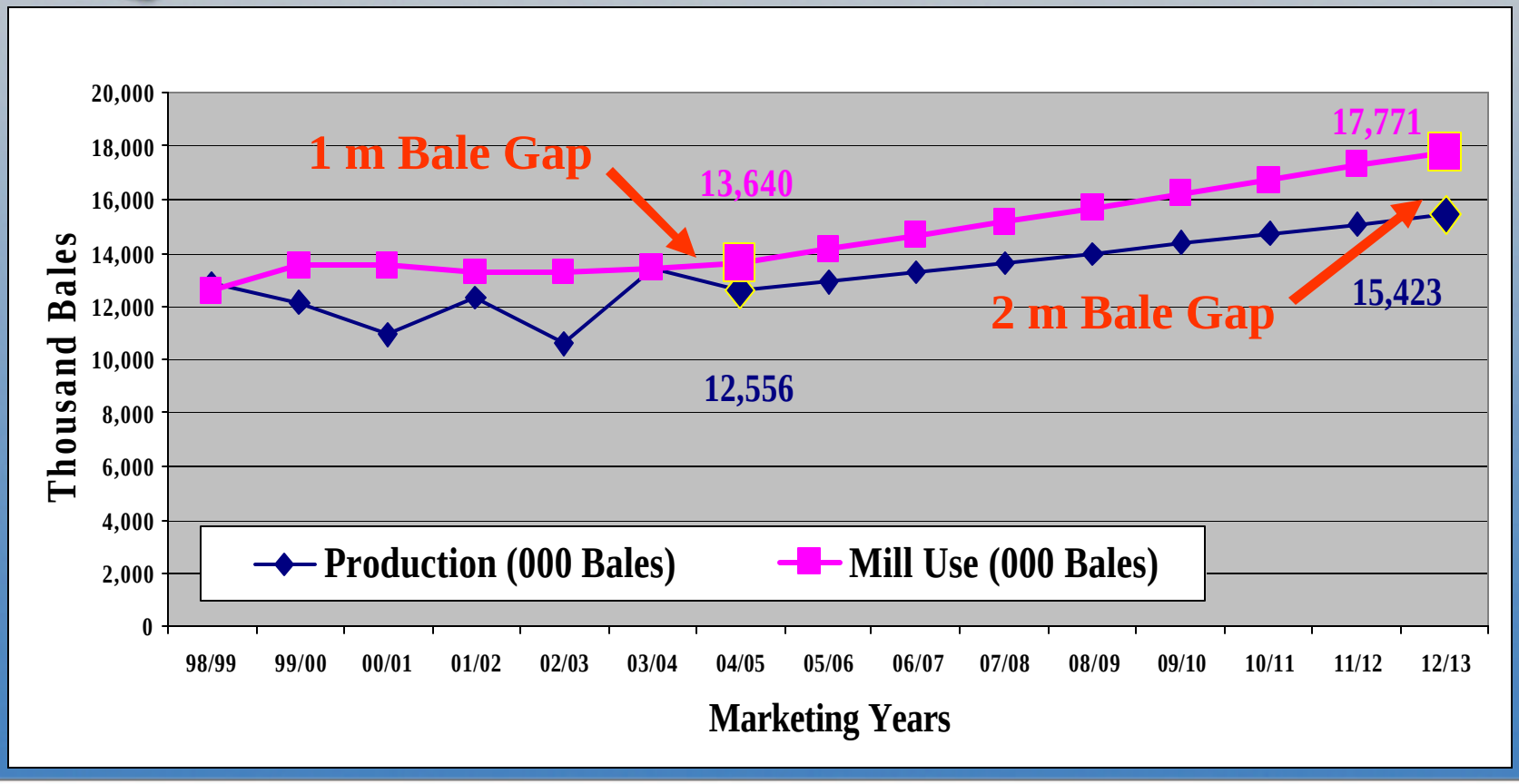
Expectations for the Indian Cotton Textile Industry

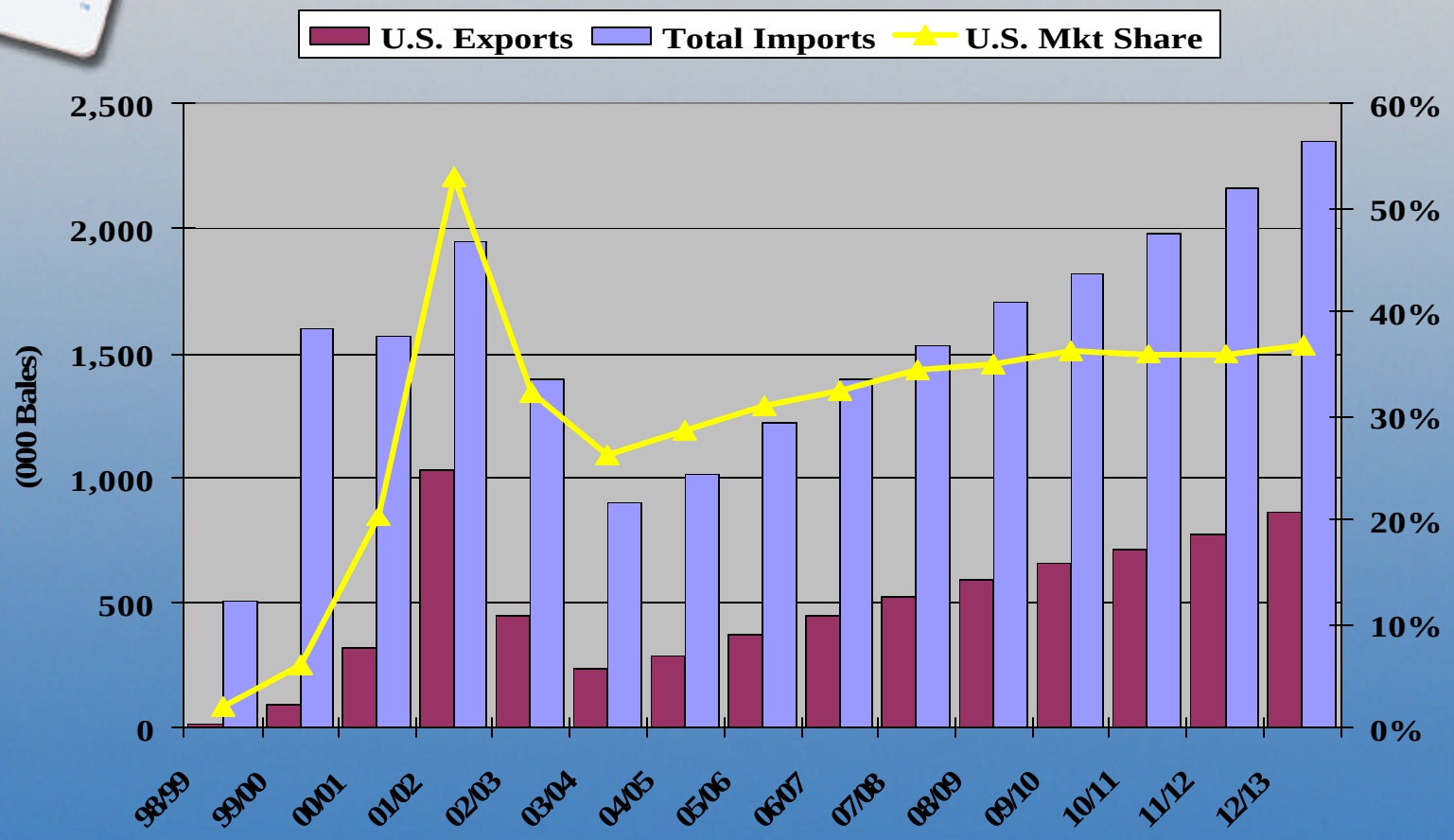
- Raw Cotton Production and Mill Consumption
- Competitiveness of Indian Industry
- Tendencies for Consumption of Cotton by Consumers at Retail
- Challenge to Cotton from MMF *and* a Solution to that Challenge

Indian Mill Consumption to Outpace Production



•CCI Export Promotion Committee – Aug 04 & USDA

Indian Cotton Imports



Just a few key

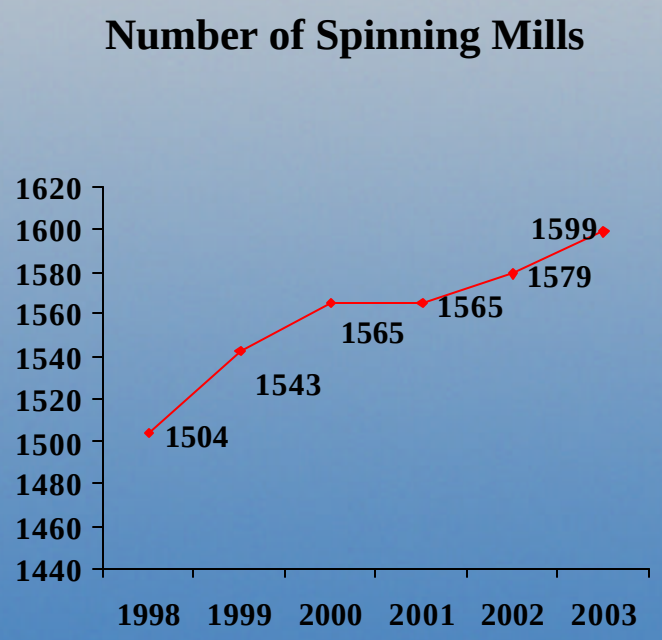
Cotton Production Factors

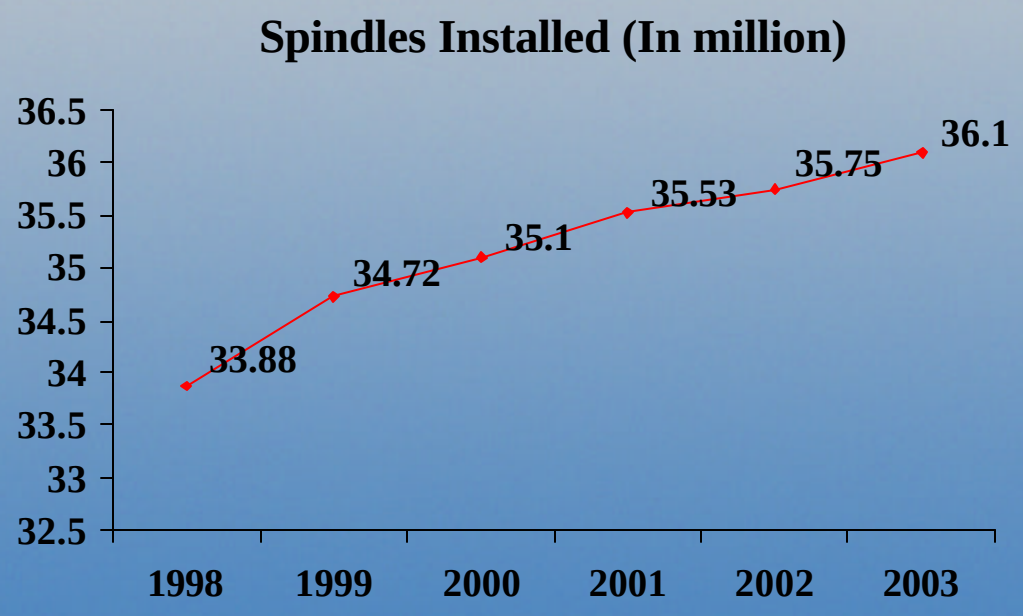
- **Improvements in Yield**
  ~290 kg/ha in 1998 up to ~340 in 2004 … up 17%
  …but how sustainable is it??
- **Rapid Growth in Use of Bt cotton**
  Now accounting for over 13% of crop at 1.13 m ha
  … but can the advantages be realized?
- **Contract farming being implemented sparingly**
- **Government Technology Mission**

Observations on Indian Mill Consumption

- The Indian textile complex will continue to be critical to the overall economy
- The Indian textile industry has made significant investments to prepare for post-MFA era
- Textile industry capacities have grown

Growth in Number of Mills





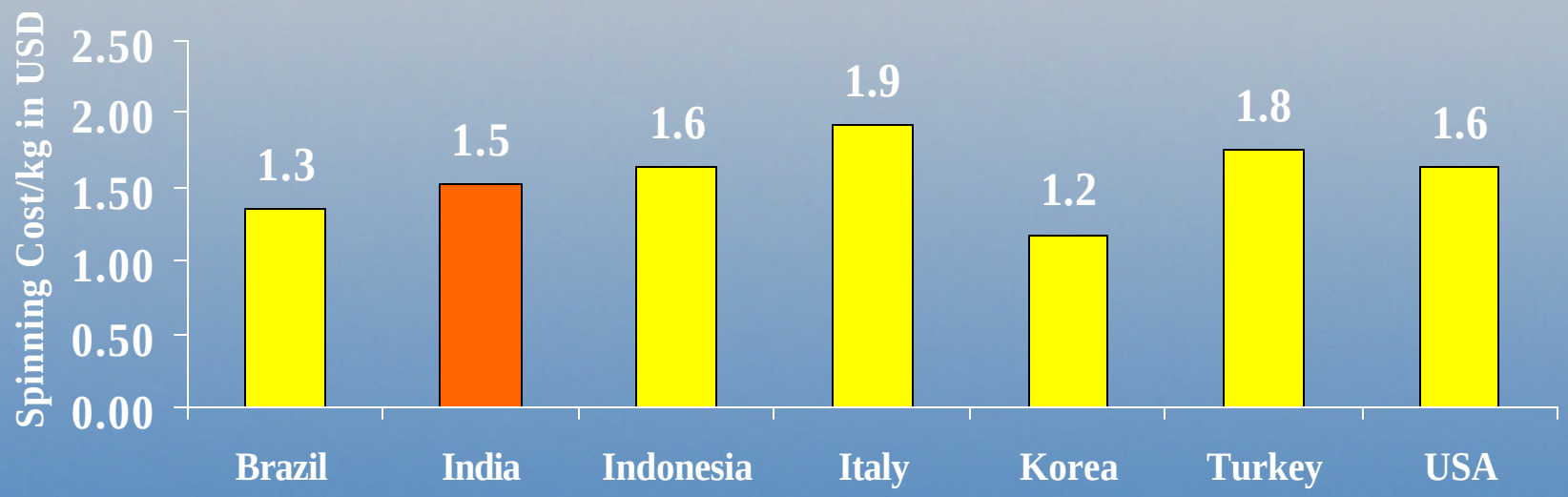
Source ***: Compendium of textile 2003***

Observations on Indian Mill Consumption

- The Indian textile complex will continue to be critical to the overall economy
- The Indian textile industry has made significant investments to prepare for post-MFA era
- Textile industry capacities have grown
- Policies are expected to remain favorable toward exports
- Consumption of cotton will grow more rapidly than production -- both domestic & export end-uses

Competitiveness In Spinning

Manufacturing Costs 2001 : Spinning Ring

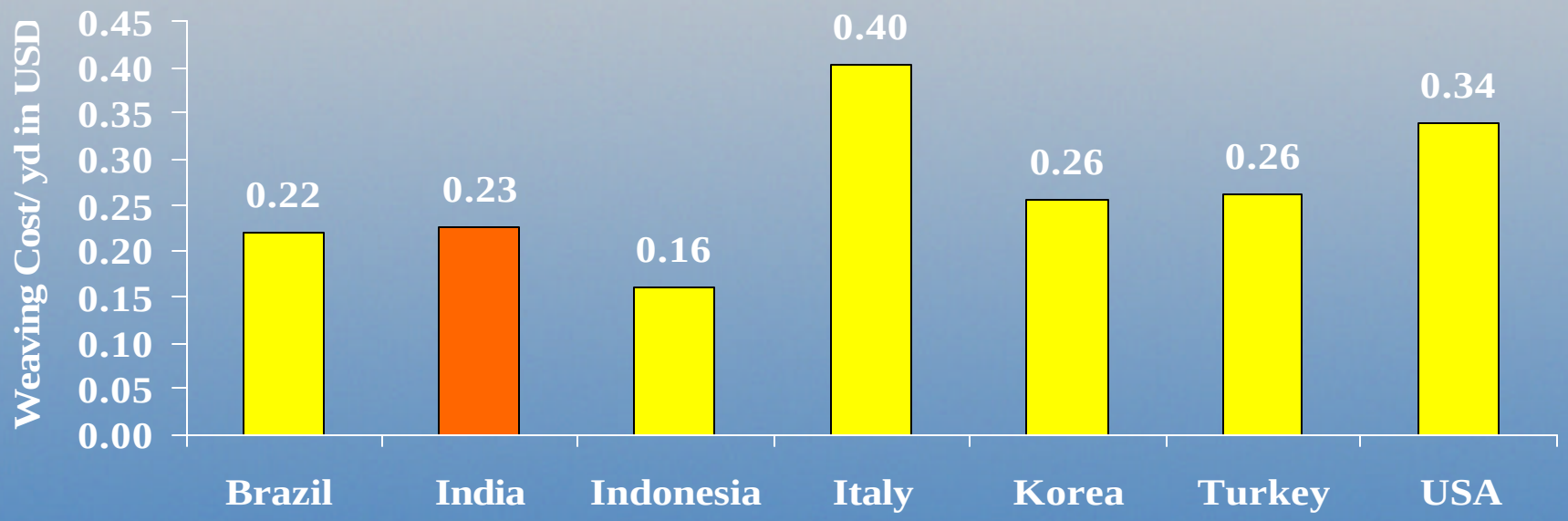


- India has state of the art spinning.
- Spinning cost – especially for medium and finer counts is one of the lowest in the world. In last two years, competitiveness further enhanced
- Has over 25% of global trade in Cotton Yarn (7% in all Yarns)

Source: ITMF Data

Competitiveness In Weaving

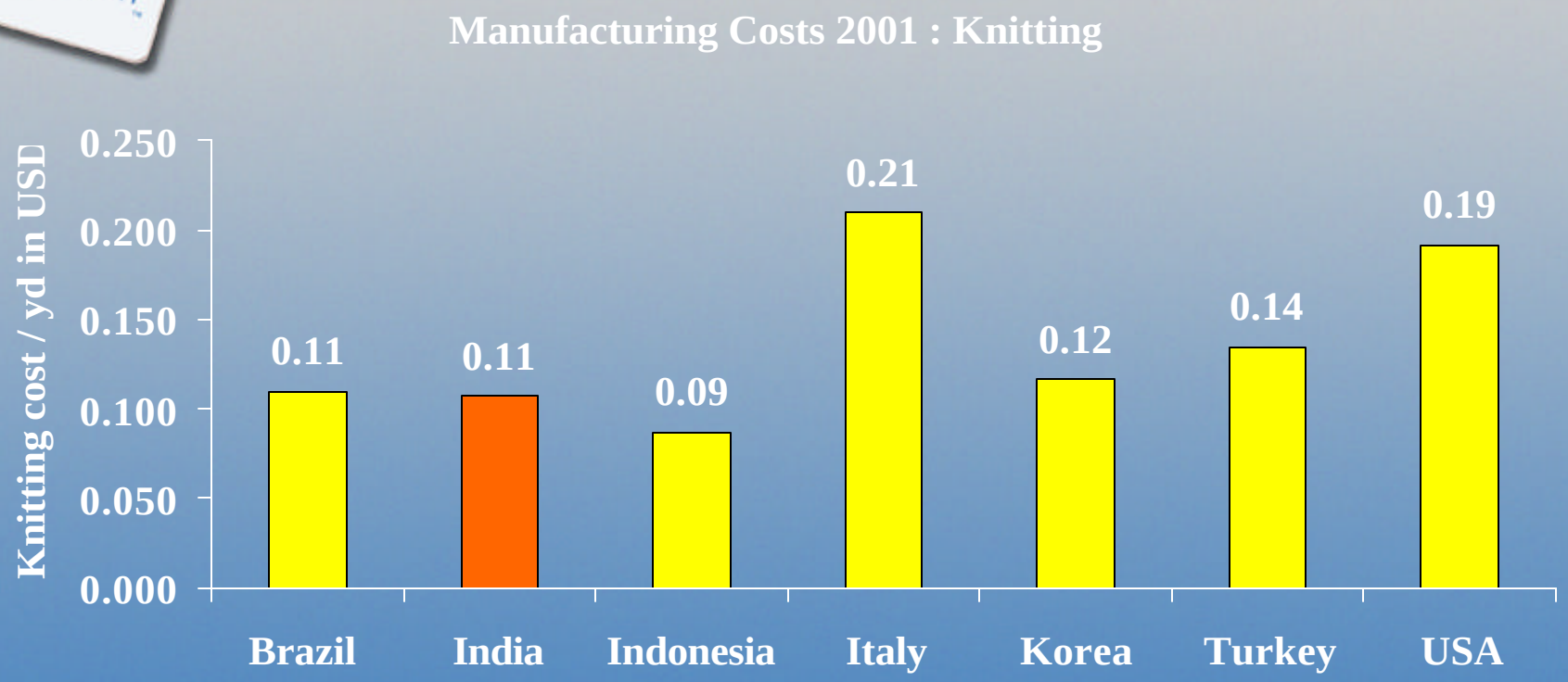
Manufacturing Costs 2001 : Weaving Ring/ OE yarn



- Weaving is globally cost competitive. However lacks modernization
- Presence of a large unorganized sector gives it the flexibility to produce smaller quantities, difficult to be produced cost effectively elsewhere
- Mill sector has the capability to produce international quality fabrics

Source: ITMF Data

Competitiveness in Knitting



- India is a large supplier of knit garments
- More companies becoming vertically integrated to reduce cost and time, and achieve better value

Source: ITMF Data

Competitiveness in Garmenting

Country	M/c Cost/day	Typical Efficiencies	Cost/SAM	Hrs. of Work
	In $/day/machine	In % terms	in Cents	Per Week
China	10	55	3.20	60
Sri Lanka	16	50	5.00	60
India	10	40	3.50	50
Dubai	30	65	6.00	70
Bahrain	36	65	7.00	70
Kenya	17	40	4.50	60
Madagascar	12	50	4.00	60
Bangladesh	9	45	2.50	60
Mexico		45	10.00	60
Guatemala		60	8.50	60
Honduras		60	8.50	60
Turkey		60	9.00	60

- India has one of the lowest conversion cost for garments.
- Costs could be further reduced by " Engineering" the facilities to increase efficiency

KSA Analysis based on KSA's projects

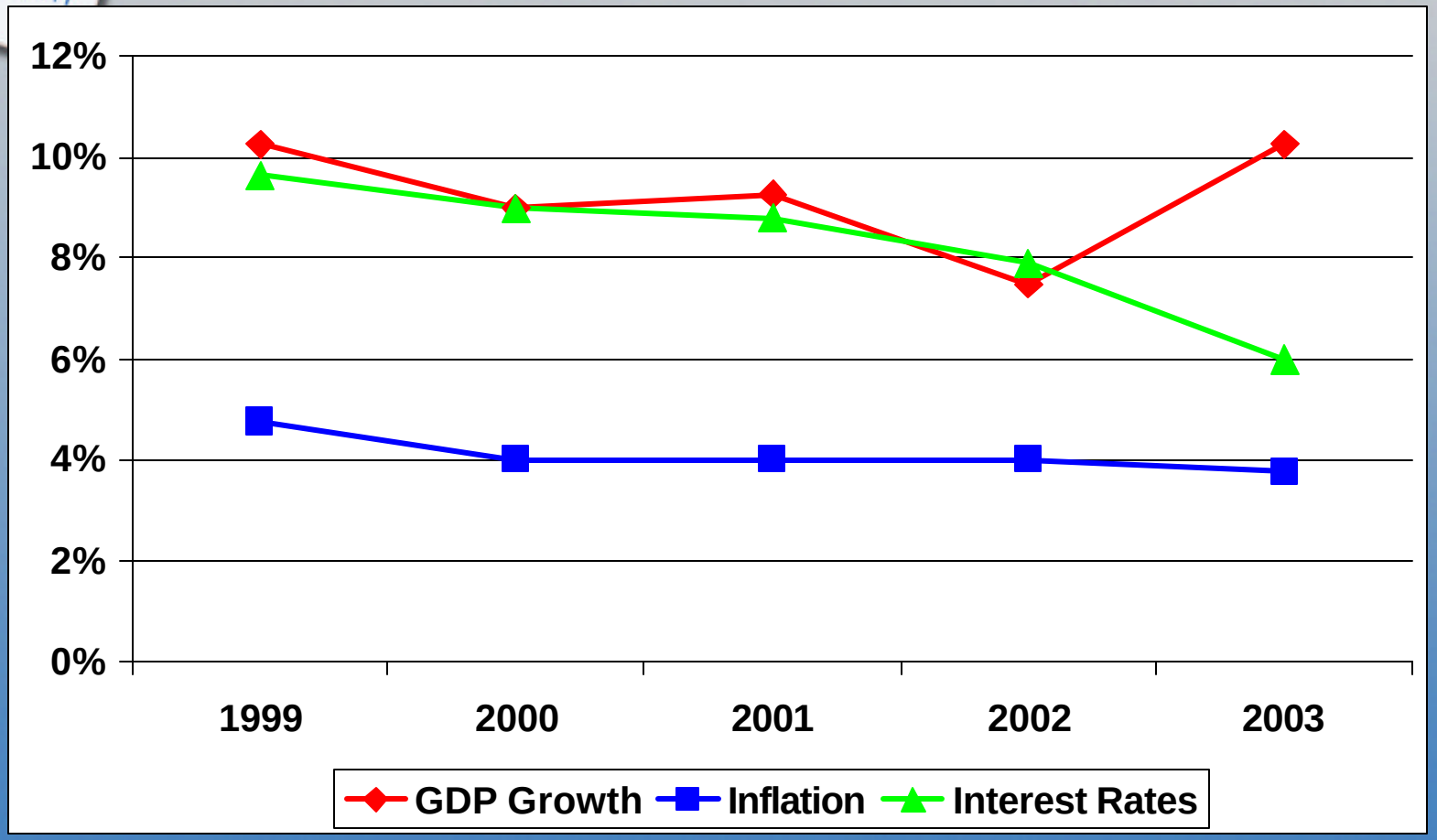
Characteristics of the Indian Consumer Market

- Tradition of Cotton – consumption, production, lifestyle
- Strong economic growth
- Rapidly growing population of consumers - + 1 billion
- Large and rapidly growing middle class - ~ 200,000 mil.
- Developing retail sector and corresponding growth in media apertures
- Traditionally high percentage per capita cotton consumption but under threat from influx of MMF's

India's Cotton Heritage

A "Culture of Cotton"

Key Economic Indicators

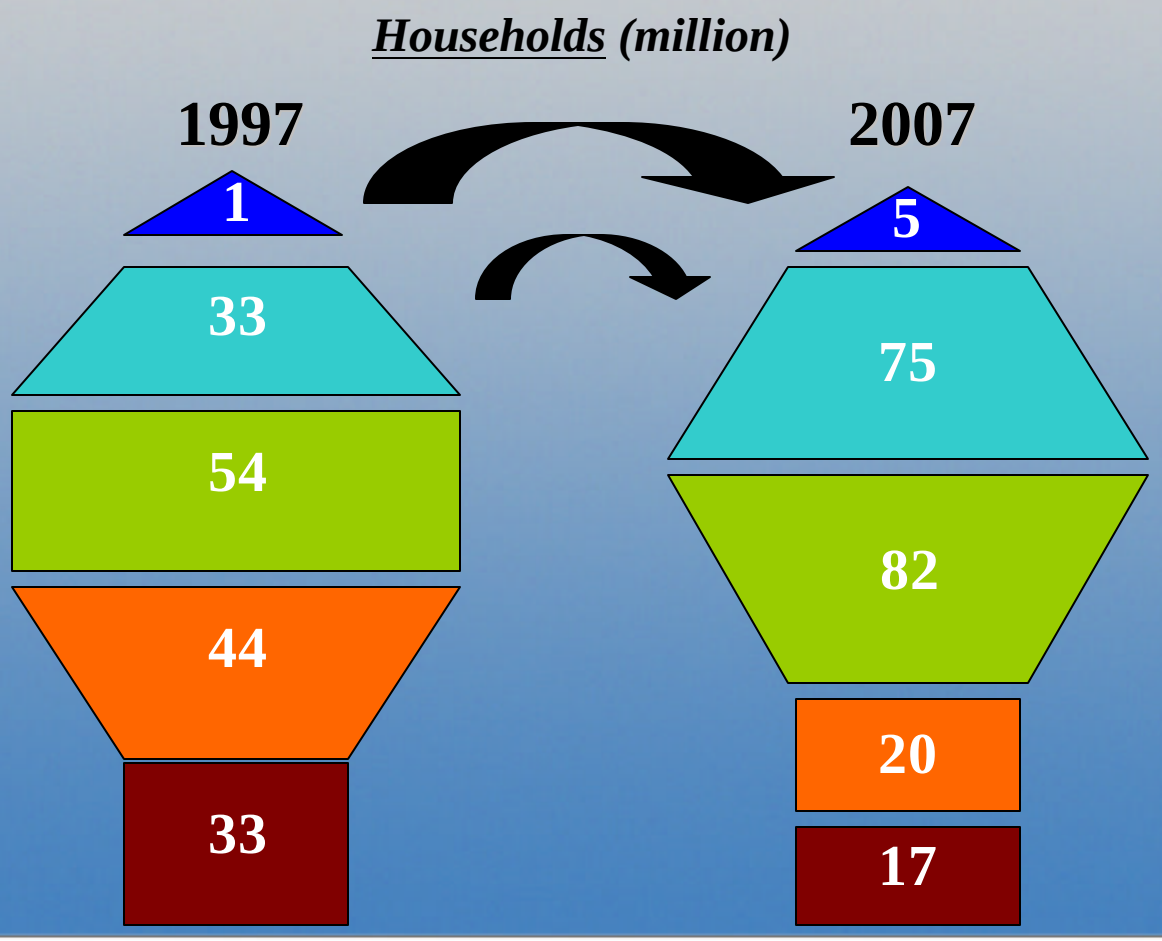


Source: Synovate's Asia Pacific Market Handbook 2004

India's Growing Middle Class

Annual Income

- **The Very Rich >Rs. 215000**
- **The Consuming Class Rs. 45000 - 215000**
- **The Climbers Rs. 22000 - 45000**
- **The Aspirants Rs.16000 - 22000**
- **The Destitute <Rs. 16000**



Source : NCAER

Rapidly Developing Retail

"India is second most attractive retail destination, ahead of China"

"India's market size offered tremendous promises as its population is expected to surpass China's by 2050. This is further supported by improved living standards and continuing economic growth."

Source: A.T. KEARNEY & India Business Line

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Crossroads: India's First Shopping Mall

Crossroads opened mid-1990's

Now over 600 malls under construction or "on the books"

Retailing in India Today

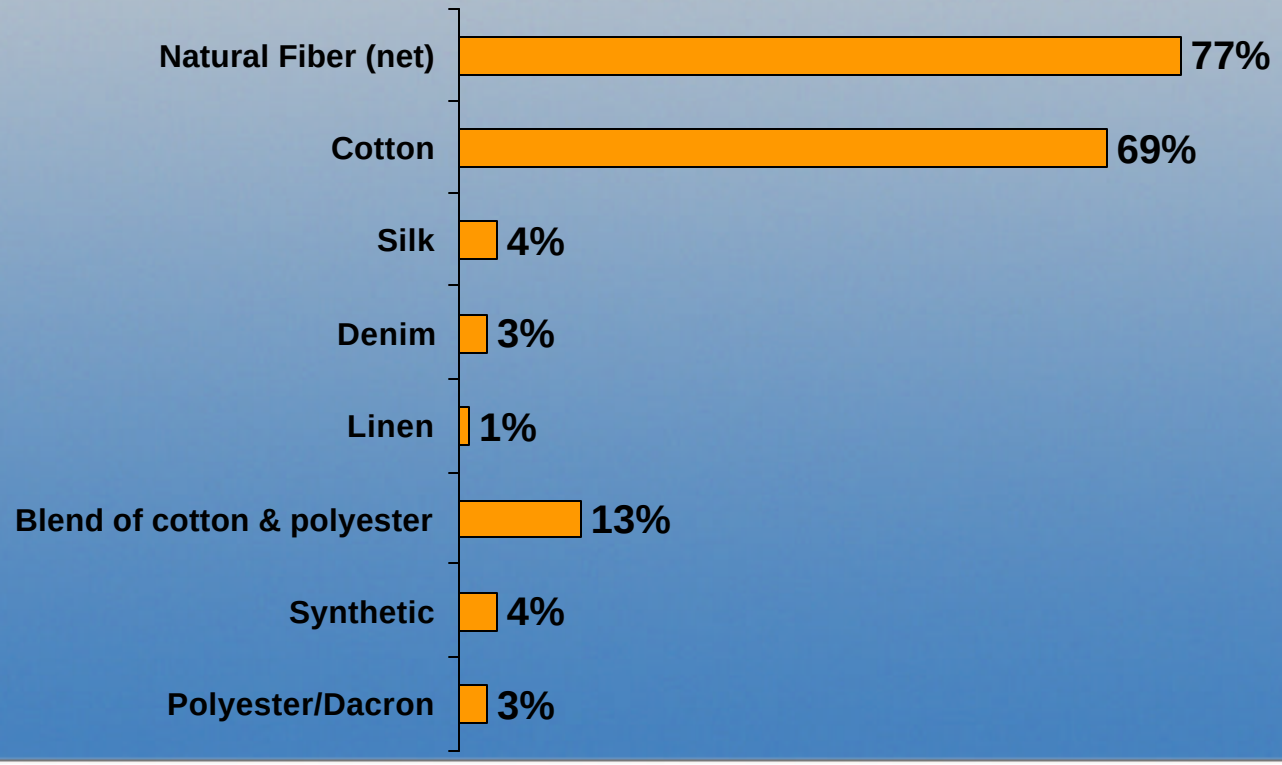
What CCI's Research Tells Us about the Indian market?

- Consumers overwhelmingly prefer natural fibers & specifically cotton over man-made fibers

Source: Global Lifestyle Monitor & CGA Research

Natural fibers – especially cotton – are considered best

"What fiber is best suited for today's fashions?"



Source: Global Lifestyle Monitor III, Synovate, Mar. 2004

Indian Attitudes Toward Fibers

Of Indians surveyed by BAI Global:

- 69% say "It's important that my clothes are made from natural fibers such as wool and cotton"
- 75% say "I think that better quality clothes are made from 100% natural fiber"
- 71% say cotton is the best fiber for current styles

Source: BAI Global

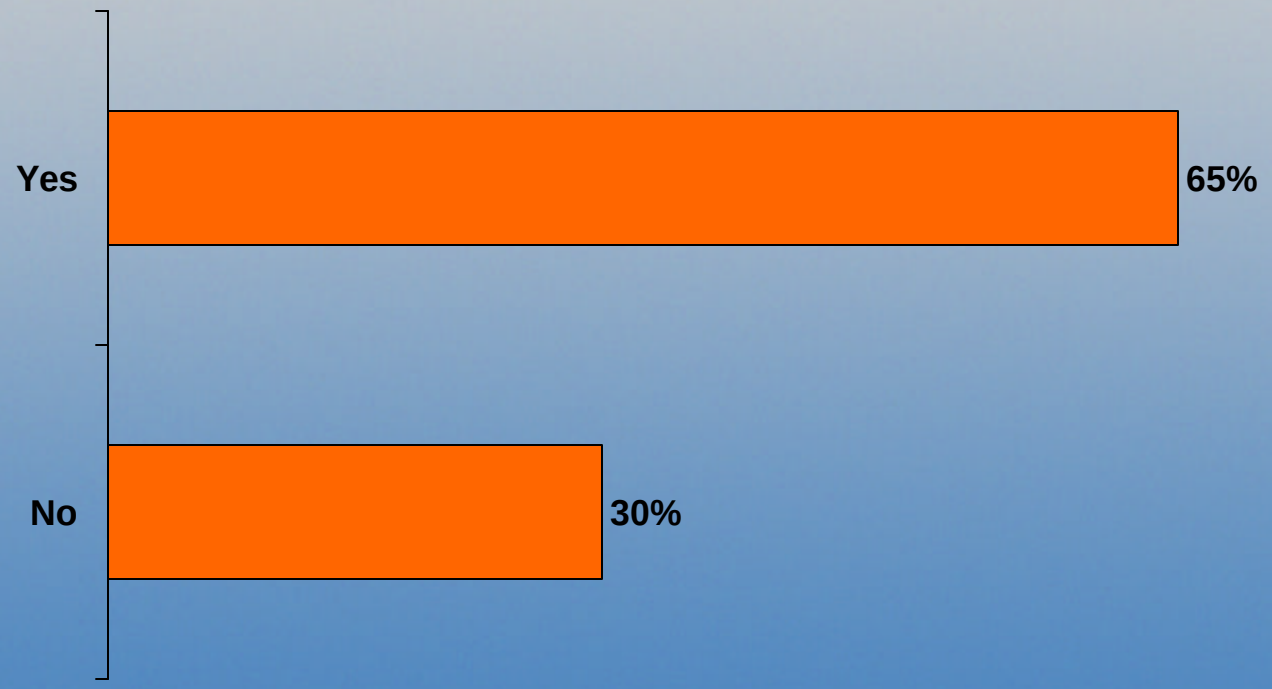
What have we learned about the Indian market?

- Consumers overwhelmingly prefer natural fibers & specifically cotton over man-made fibers

- Consumers increasingly demand quality and are willing and able to pay for it

Source: Global Lifestyle Monitor & CGA Research

65% of Indians say they'll pay more for natural fibers



"Would you pay more for clothes made from natural fibers such as cotton than you would for clothes made from synthetics such as polyester?

Source: Global Lifestyle Monitor III, Synovate, Mar. 2004

Indian Attitudes Toward Apparel Quality

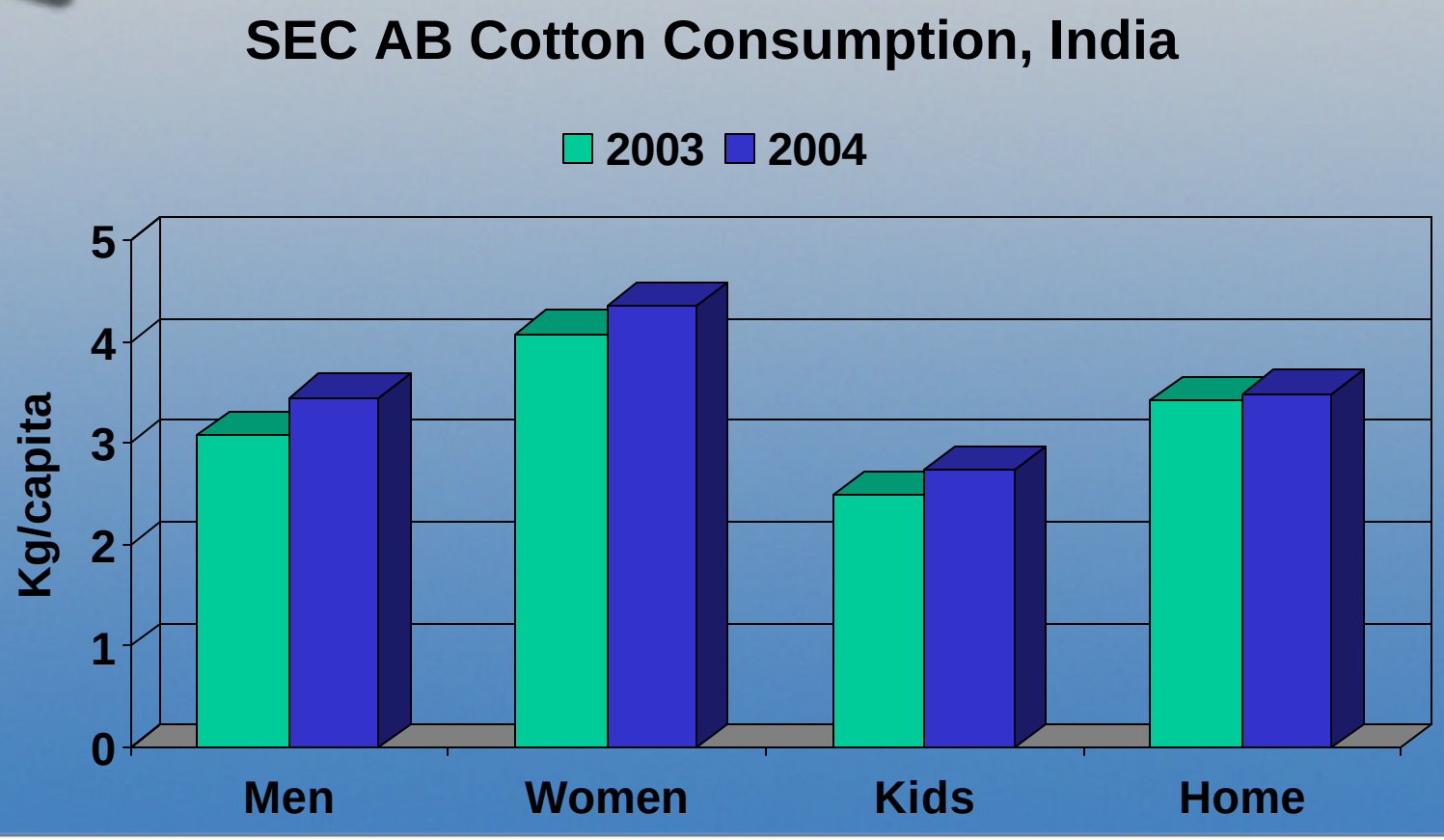
Source: Global Lifestyle Monitor III, Synovate, Mar. 2004

What have we learned about the Indian market?

- Consumers overwhelmingly prefer natural fibers & specifically cotton over man-made fibers
- Consumers increasingly demand quality and are willing and able to pay for it
- **Consumers are buying more cotton now than they were even two years ago …. *But … they are buying even more polyester***

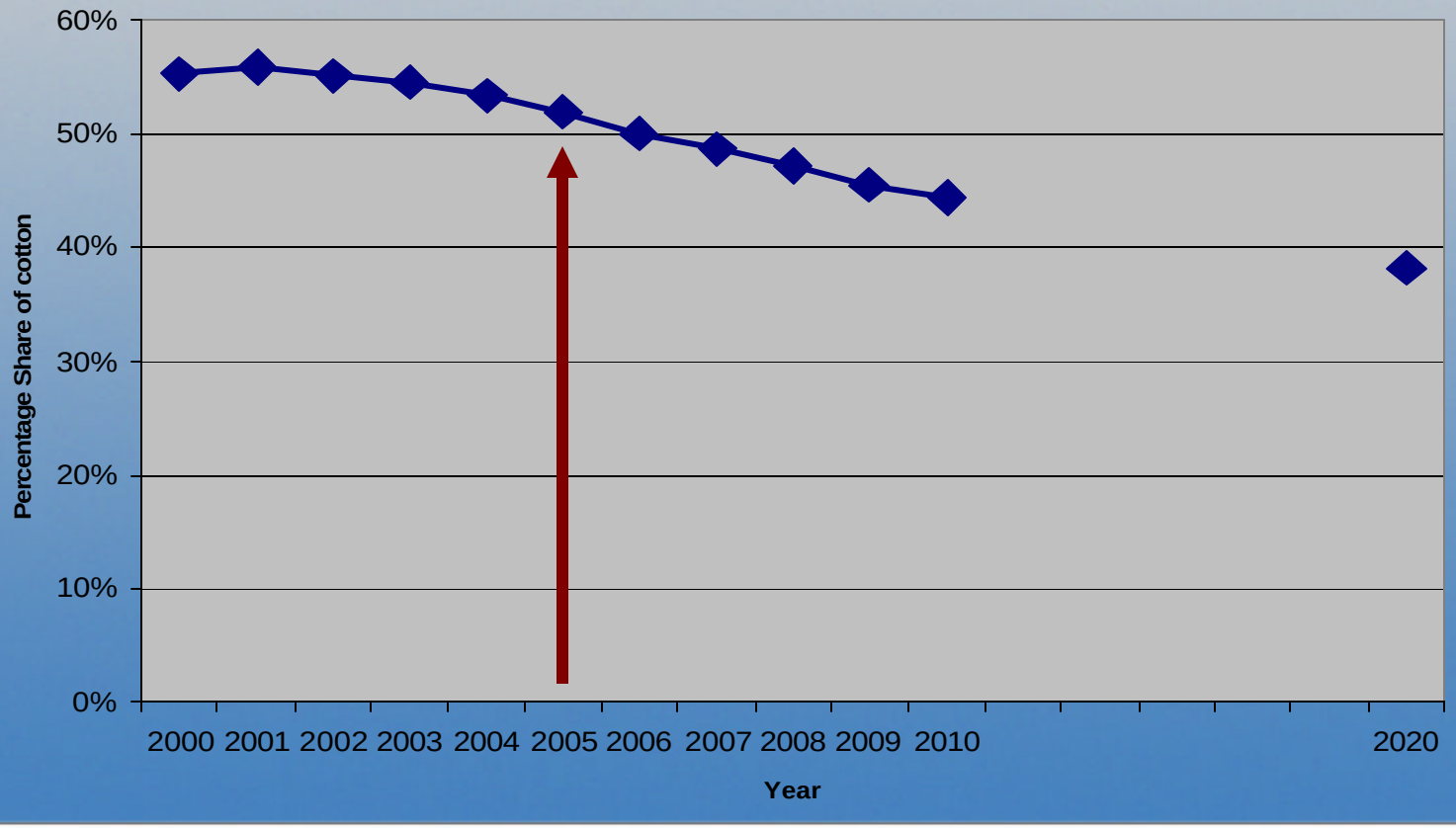
Source: Global Lifestyle Monitor & CGA Research

Indian Cotton Consumption



Source: Global Lifestyle Monitor & CGA Research

Cotton Share of Indian Consumer Fiber Consumption

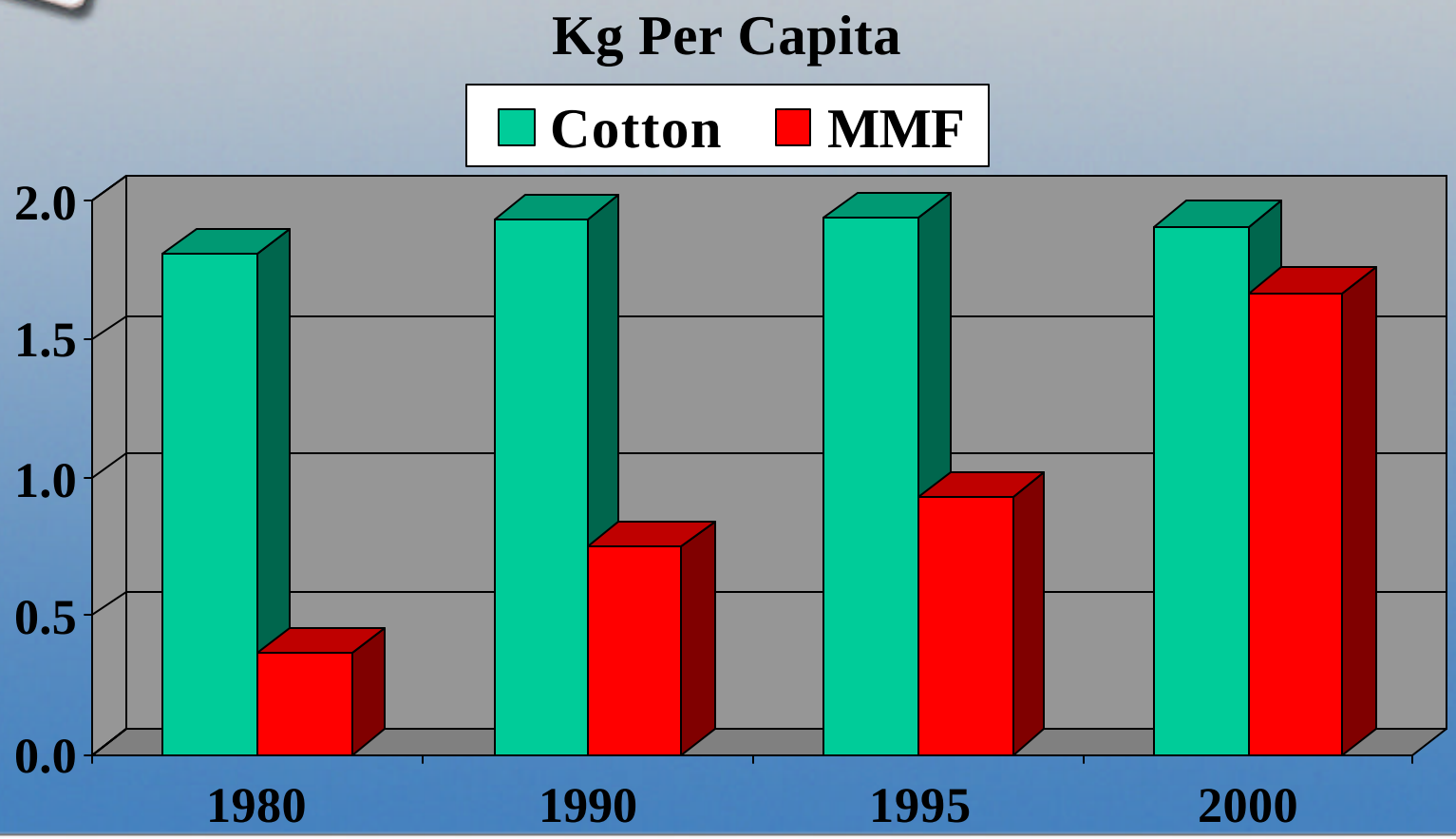


Source: PCI Supply/Demand Report, 2000

As Elsewhere, There Is a Shift From Cotton to MMF

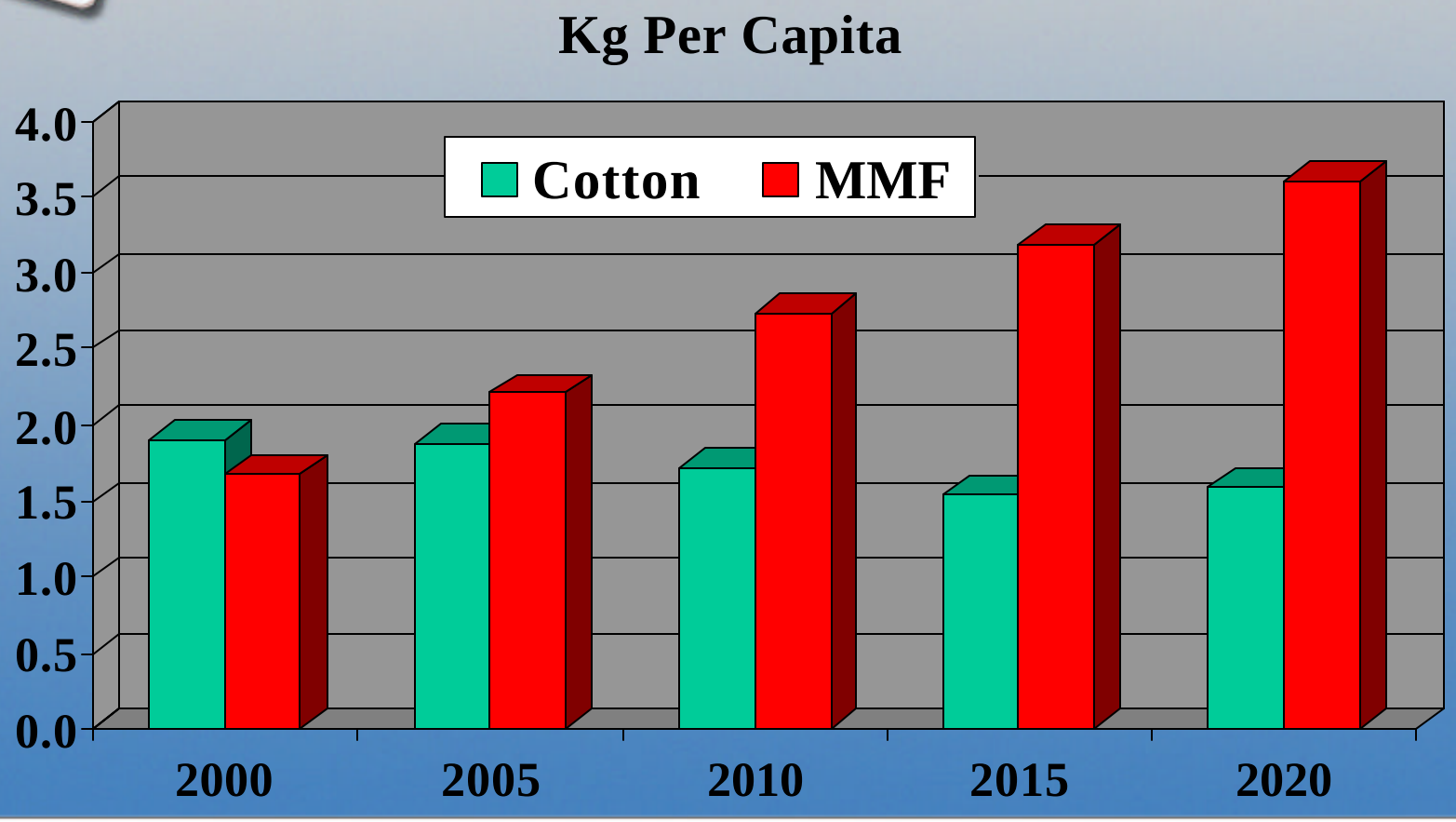
- Market Forecast for India, 1995-2020
  - MMF
    - Market share is expected to increase from 32% to 62%
    - Overall volume growth of 13% per year
  - Cotton
    - Market share is expected to decrease from 68% to 38%
    - Overall volume growth of only 2.5% per year

Historical Fiber Consumption, India



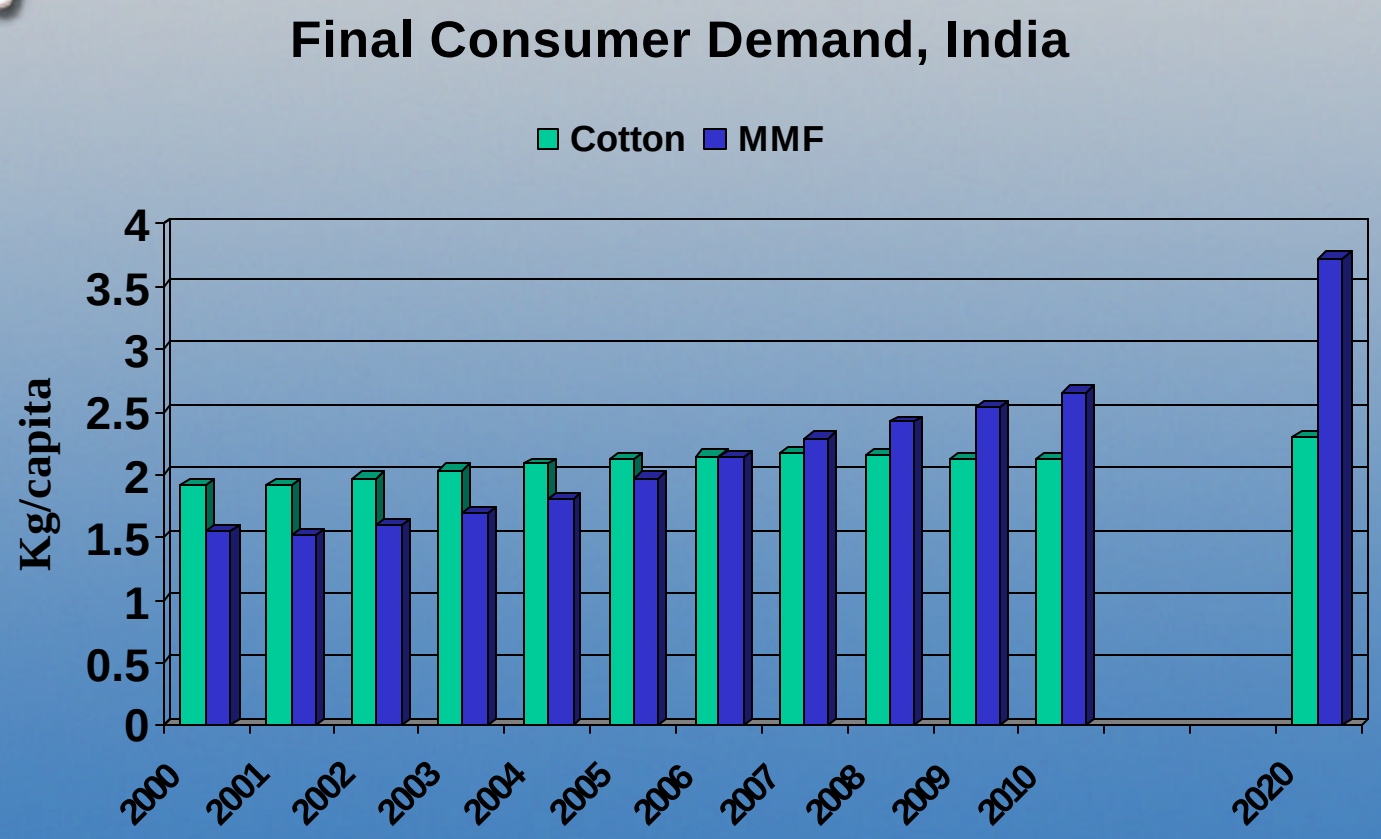
Source: PCI Supply/Demand Report, 2000

Projected Fiber Consumption, India



Source: PCI Supply/Demand Report, 2000

Without organized support, cotton will lose share to MMF



Source: PCI Fibres & Raw Materials Supply/Demand Report 2003

The Solution: CGA

Cotton Gold Alliance

Cotton Council International
Cotton Incorporated

The CGA Strategy

Based on Cotton Inc. Strategy in the U.S.

- To provide product differentiation to quality, 100% cotton products via the Seal of Cotton, and
- To promote fiber awareness and cotton preference among India's middle and upper class
- By sponsoring advertising, promotions, PR, and technical assistance and builds demand for CGA partners and ultimately, cotton vs MMF's

Cotton Gold Alliance Background

- Cotton Incorporated, CCI, and USDA partnership with leaders of the Indian textile industry
- Three-year, two-million dollar Section 108-funded program began in 2002
- Boost demand for cotton regardless of growth
- Goals: to increase consumption of cotton fiber among growing Indian middle class and thus to increase off-take of cotton in India as well as elsewhere

Cotton Gold Alliance in 2002

- Established technical criteria for alliance membership; licensed first partners
- Employed local marketing and advertising agencies
- Developed “The New Face of Cotton” advertising campaign
- Program launched at trade level Oct. 25 in New Delhi

October 2002 Trade Launch

Cotton Gold Alliance in 2003

- Development of advertising, media, PR, and direct marketing plans
- Licensing of leading Indian textile, apparel and retail firms as CGA partners
- Consumer advertising launch

May 2003 Consumer Launch

- Press conference in Mumbai attended by 75 journalists
- Fashion show featuring products licensed to carry the Seal of Cotton

May 2003 Consumer Launch

Core CGA Partners

Cottons by Century

ICON ashima 24 Carat Cotton Fabrics

Berkeley The spirit of California woven into shirts

EURO fashion inners

Classic Polo Just relax.

Louis Philippe The upper crest.

Crocodile

INDIGO NATION

SHOPPER'S STOP Feel the experience. While you shop.

Pantaloons a's Family Store

LOGO JUST COTTONS

moral fibre

RUPA

Monte Carlo

SCULLERS

BLACKBERRYS sharp. smooth. sure.

VAN HEUSEN

SHAMKEN

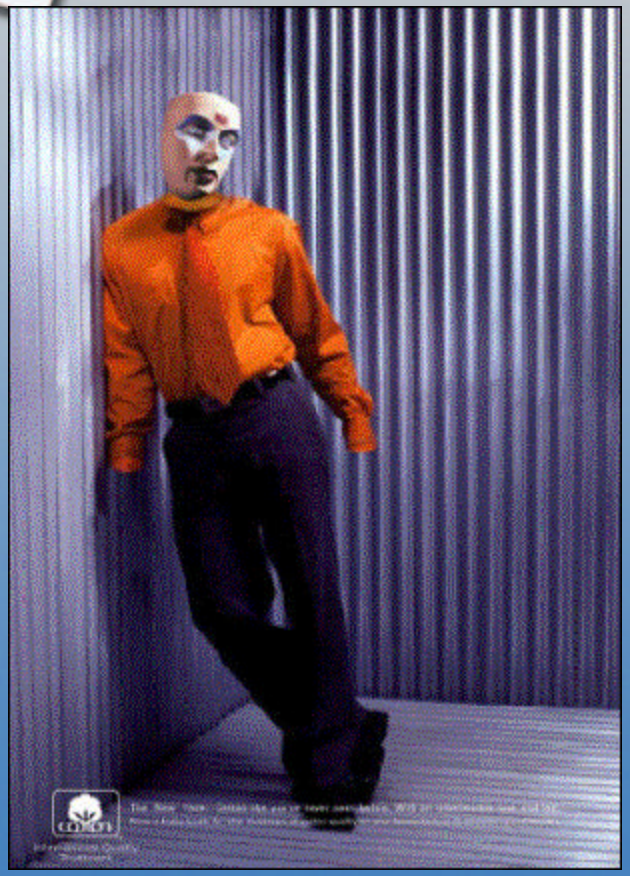
Monte Carlo PRESENTS COTTON COUNTY LUXURY COTTON FABRIC

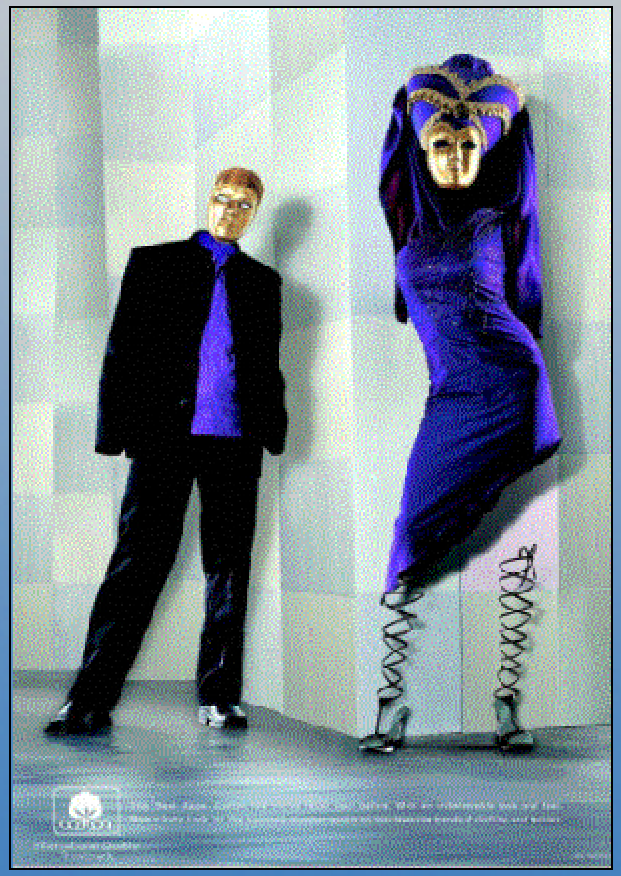
ARROW EST. 1851

Lee

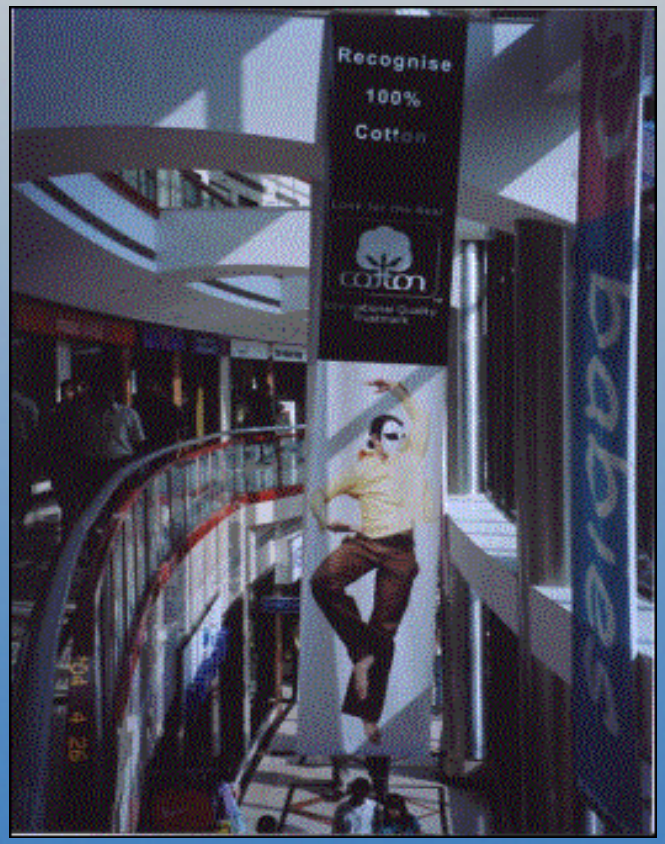
Wrangler

The New Face of Cotton: 2003





Outdoor Campaign

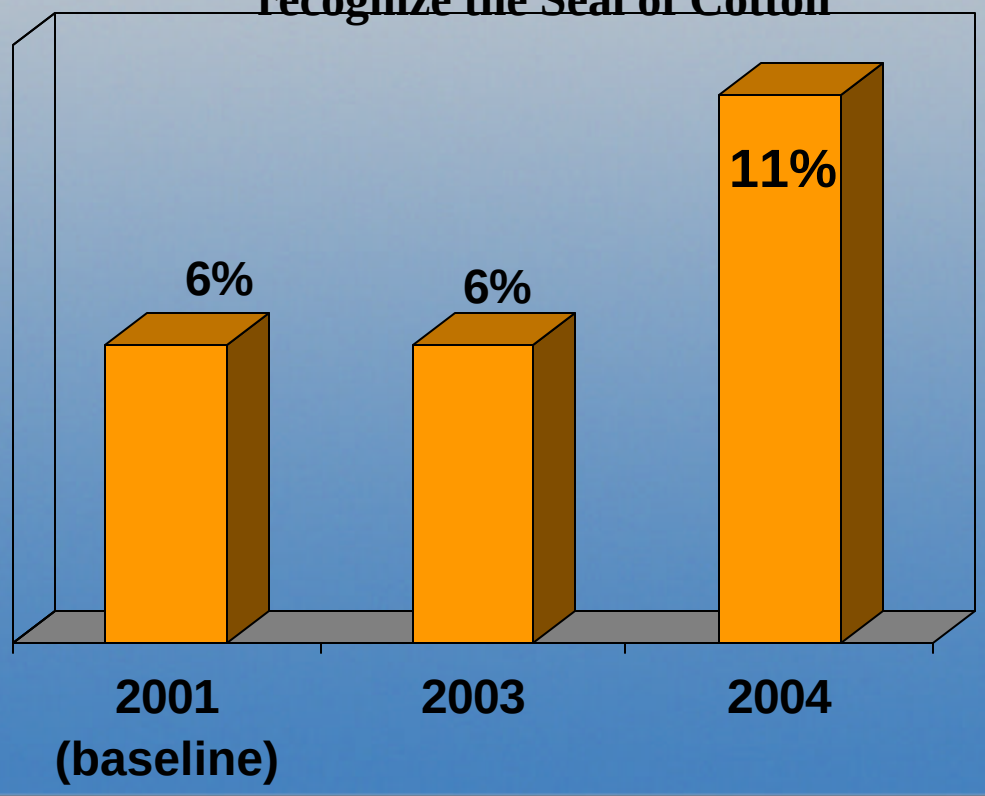


In-store Activity

- Certificates/plaques given to partners for in-store display
- Seal of Cotton stickers distributed, to be pasted on doors, panels etc.
- Information leaflets distributed to all partners

Seal of Cotton awareness doubled after 12 months

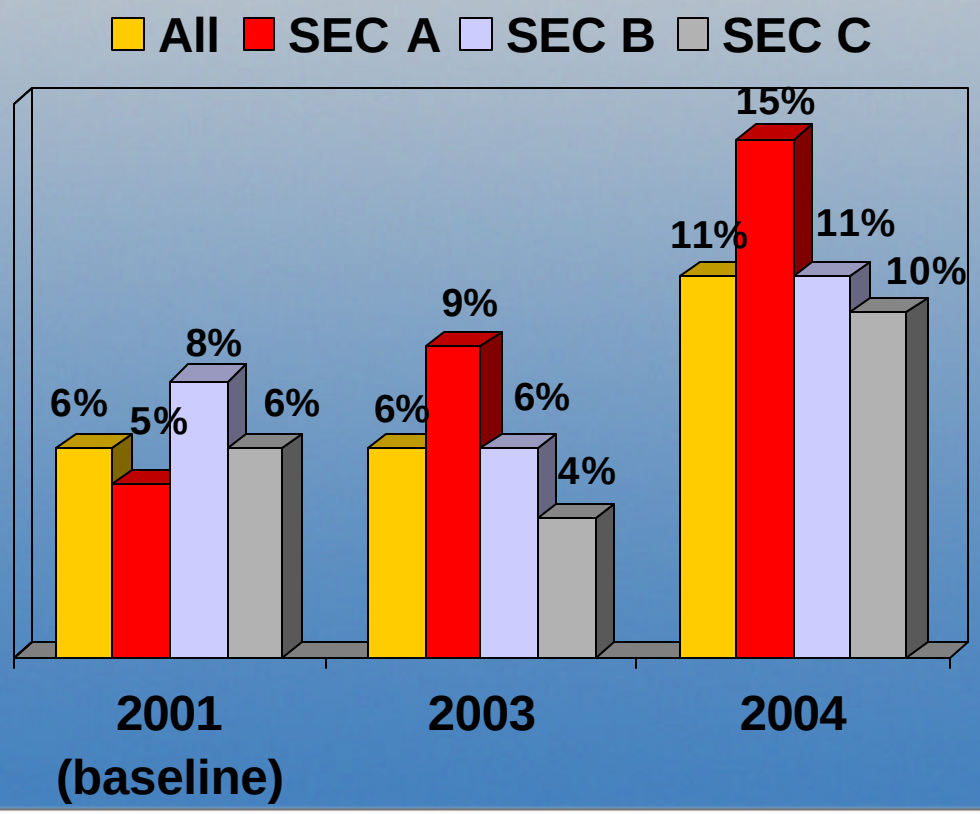
Percentage of SEC A, B and C consumers aged 15-54 who recognize the Seal of Cotton



Source: Seal of Cotton logo tracking survey, TNS Mode, May 2004

Growth highest among SEC A

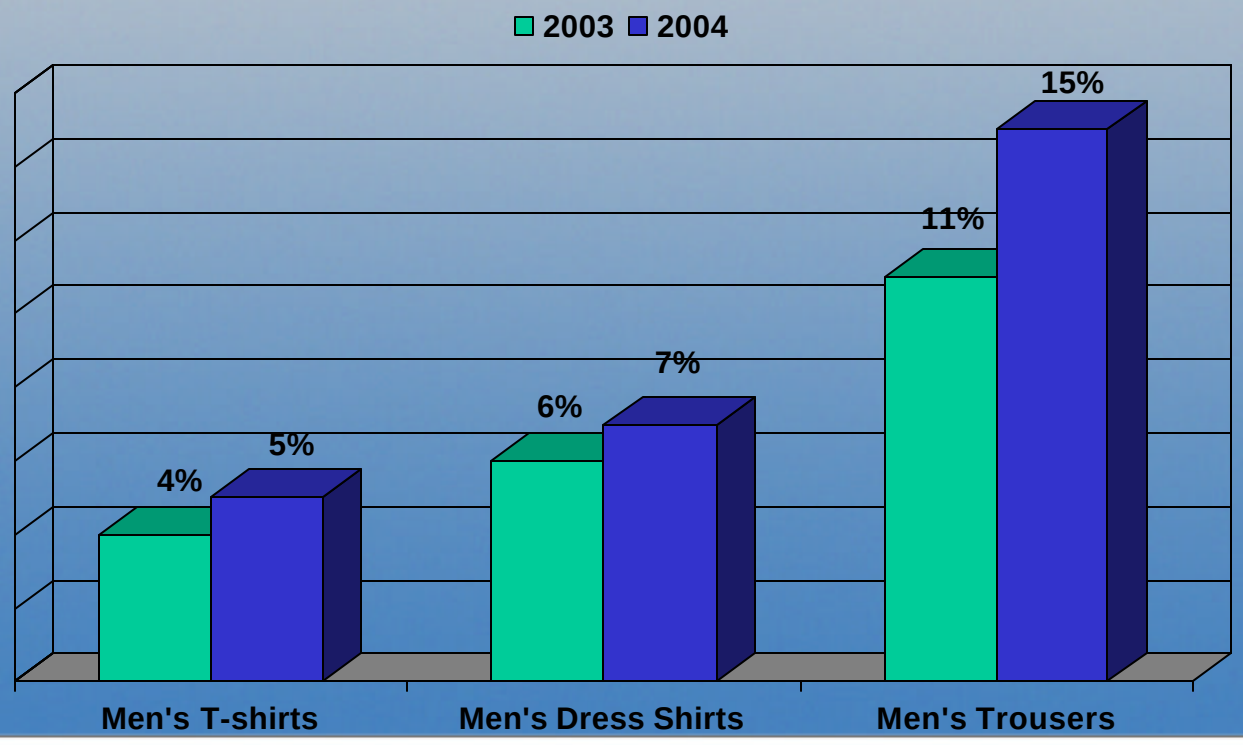
Percentage of SEC A, B and C consumers aged 15-54 who recognize the Seal of Cotton



Source: Seal of Cotton logo tracking survey, TNS Mode, May 2004

Premium paid for 100% cotton products is increasing

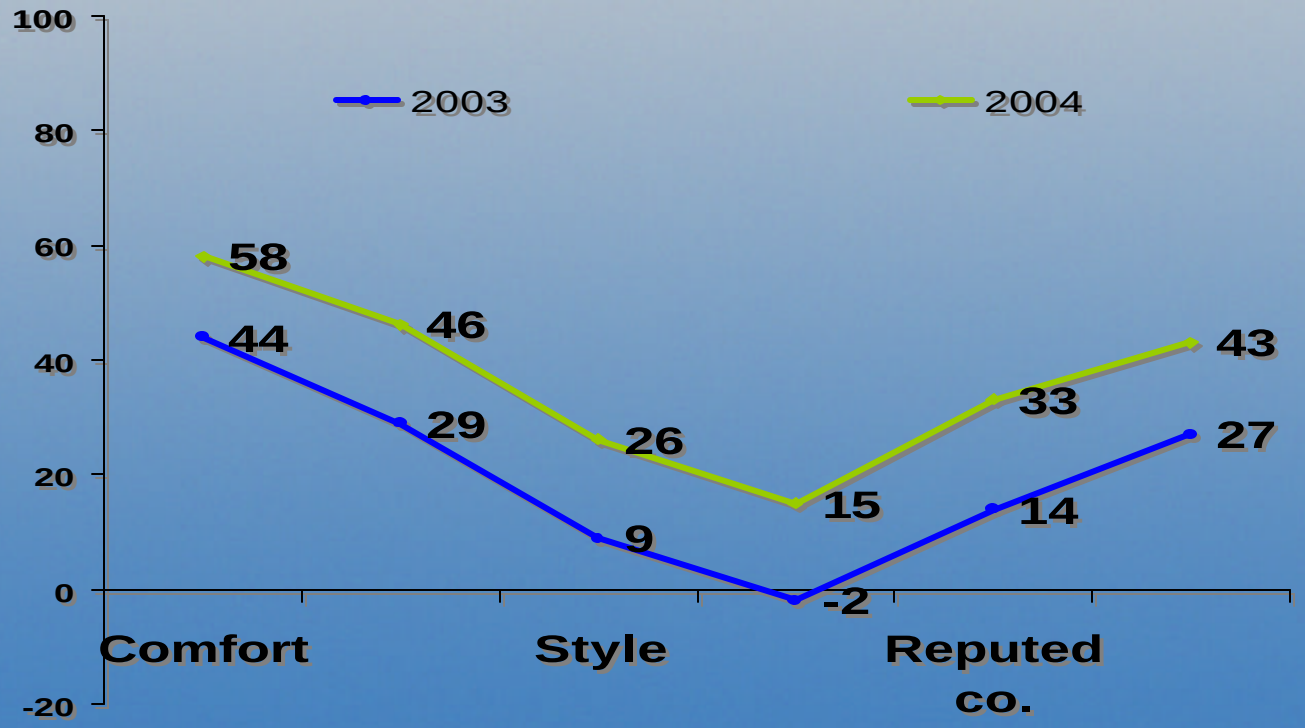
Difference in premium price paid for 100% cotton products vs. premium price paid for all products



Source: Consumer Index of Cotton Consumption, KSA Technopak, May 2004

Preference for 100% cotton products is high – and growing

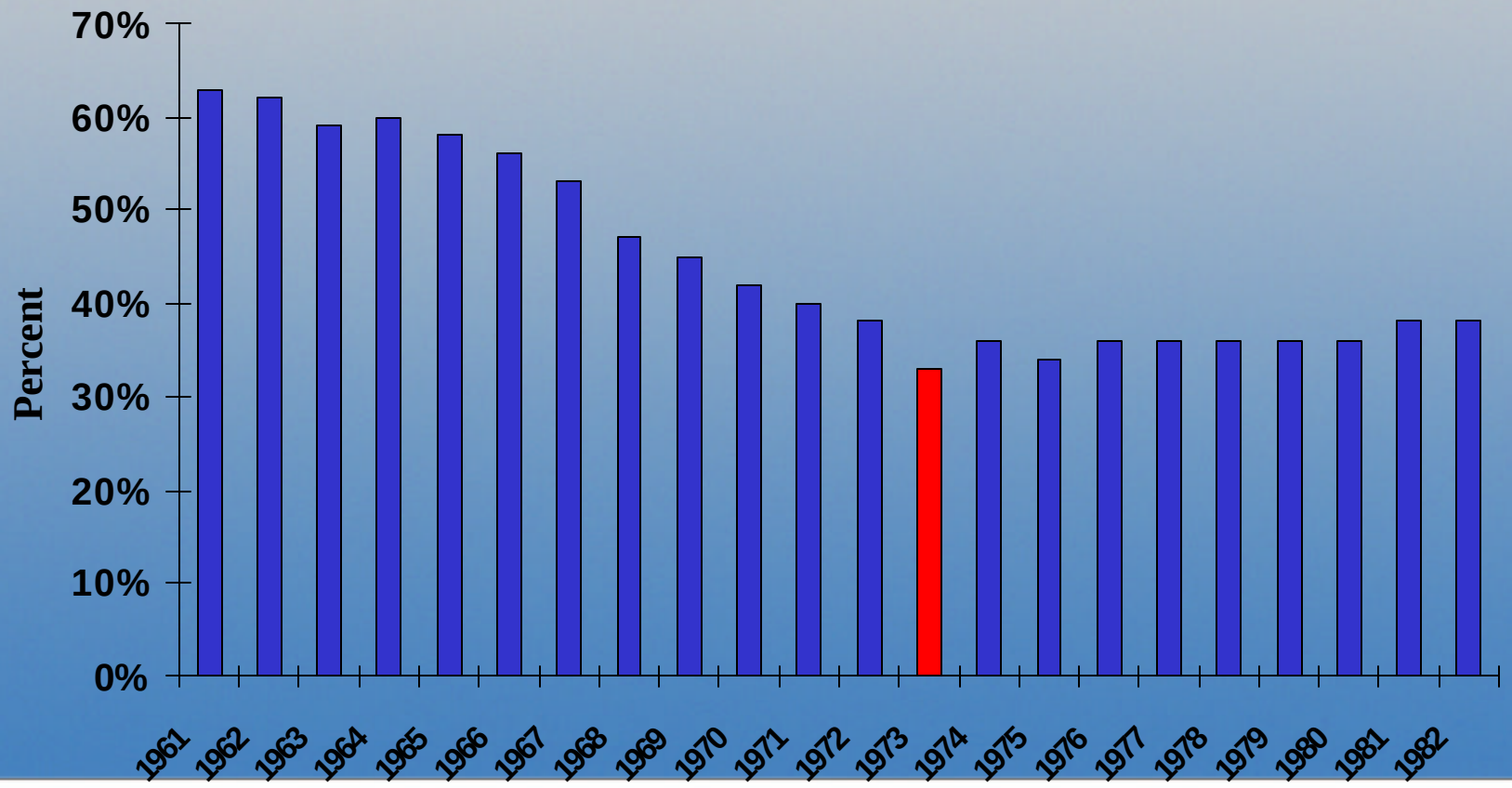
Difference in the percentage of consumers who give a “high” rating to 100% cotton products vs. those who give a “high” rating to synthetic products



Source: Seal of Cotton logo tracking survey, TNS Mode, May 2004

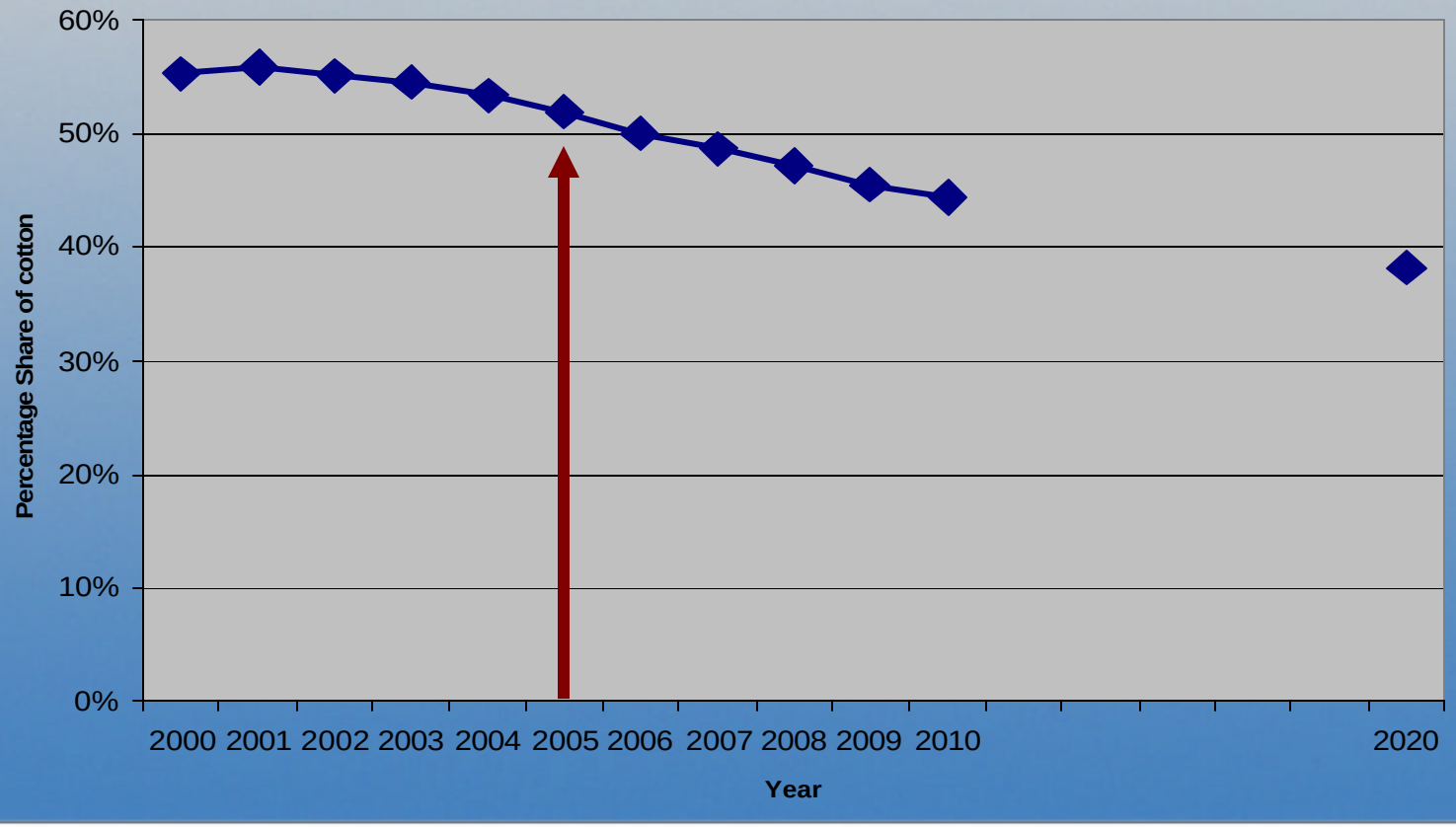
Why Do We Believe in the Program?

Cotton's share of U.S. market prior to Seal of Cotton advertising



*Source: NPD and Trade Data * Excludes carpet*

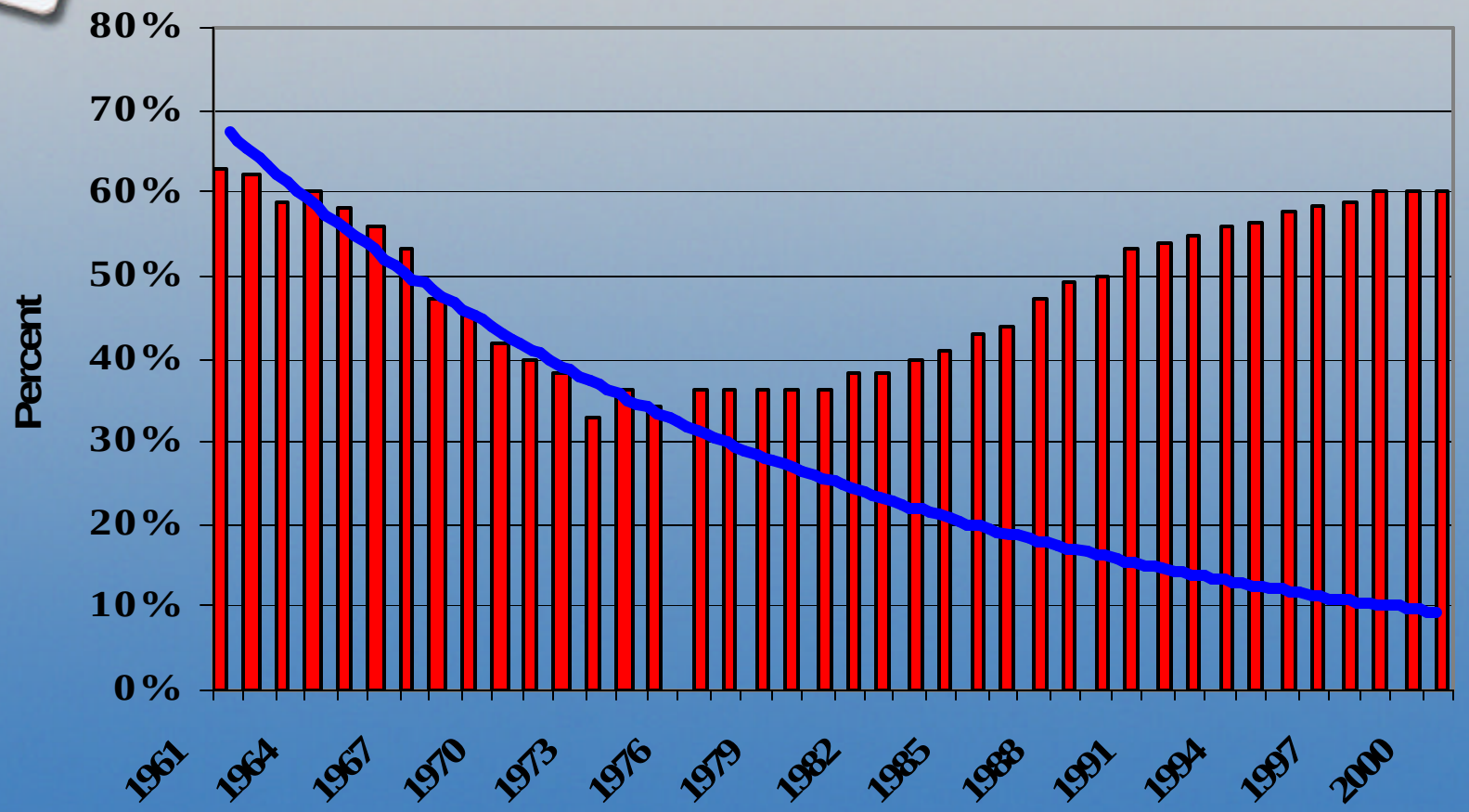
Cotton Share of Indian Consumer Fiber Consumption



Source: PCI Supply/Demand Report, 2000

Seal of Cotton Worked in the US

Cotton's share increased from a low of 33% in 1973 to its present 60%



*Source: NPD and Trade Data * Excludes carpet*

In Summary, India will …

1. … remain major producer of cotton and will grow
2. … see growth in consumption of raw cotton, and at a faster rate than production and thus will import
3. … should be a competitive player in the post-MFA era
4. …see continued growth in size and sophistication of the domestic market
5. … see a continued consumer trend toward MMF's and away from cotton despite the innate preference for cotton
6. Unless a significant, coordinated demand-building effort is pursued to boost consumption of cotton at retail

Thank You!