

The Third
Business Confidence Survey report

A Textile Industry Perspective
(October – December 2005)

October 2005

by

Yarns *and* Fibers.com

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Executive Summary

The Rs.1,300 billion Indian textile industry has raised concerns over rising oil prices and fierce competition from China to hamper their growth prospects in coming quarter. These are the woes of man-made fibre based industry. Cotton textile segment is happy over bumper cotton crop and prices at below international levels. Power supply and infrastructure bottlenecks are key constraints to growth from operational point of view. However, both the segments will benefit from the rising demand in domestic markets as the Indian economy is poised to register a handsome growth of 6.8-7.0% in real GDP. This will be over and above the 6.9% growth recorded in 2004-05.

With two consecutive years recording a generous growth in income levels, it is obvious that domestic demand would expand significantly. However, some concerns are over the inflation that may trigger in led by the rising crude prices. Overall inflation will tend to shrink demand for industrial commodities like consumer durables and textiles. Until the end of October, such inflationary pressures were not witnessed as petroleum prices in India were controlled administratively. Globally, oil prices are up by almost 40% in the first 10 months of 2005, although of late they were seen cooling a bit.

The third consecutive Business Confidence Index for the quarter October to December, computed by **Yarnsandfibers** based on survey, is placed at 81.6. On a scale of 0 to 100, the highest is 100, at 50 the confidence is on average and below 50 implies pessimism. However, over the last three quarters, the Business Confidence Index has been on a steady decline - from 86.5 in June quarter it fell to 83.9 in September and further down to 81.6 for the current quarter. The fall in expectation is attributed to rising costs and competition. However, many companies feel that their business performance would remain stable while quite a few expect it to expand. Very few expect their business performance to be lower than the previous quarter.

The July to September 2005 quarter, as per the survey, was very good for the textile companies. The Current Status Index, measuring current business performance vis-à-vis previous quarter, stands at 80.3, up from just 66.1 for the quarter ended June 2005. The Business Confidence Index for the same quarter was also at 83.9. Thus, it appears that the business expectations had turned into reality.

Given the opportunities arising from removal of trade quotas, the textile industry has set up an ambitious target for coming years. Exports are set to reach US\$50 billion by 2010. This will double India's share in world textile trade to 8%. This seems highly ambitious given the fact that investments are not trickling in. To achieve the set target, India needs investments worth Rs.1,400 billion, a colossal task ahead.

Textile companies want Government policies to be favourable and in line those in the neighbouring textile nations. The Government also needs to work on infrastructure, labour and power reforms and friendlier fiscal and export policies to enhance competition.

Chapter 1: The Indian Textile Industry

The textile industry is one of the most important part of the Indian economy. It contributes 4% to GDP and around 35% to gross foreign exchange earnings in merchandise trade. The Rs.1,300 billion (US\$ 25 billion) industry accounts for 20% of the country's industrial output and provides direct employment to about 35 million people, the second largest after agriculture. It also provides indirect employment to another 47 million people.

India has 19% of World's spindleage with 34 million spindles, 395,000 rotors and 2 million looms. In terms of output, India accounts for 10% of World's cotton yarn production and 15% of cotton fabric.

Indian textile industry spans across all processes including several sub-sectors like spinning, weaving, knitting and garmenting. It is a multi-fibre based industry using cotton, jute, wool, silk, manmade fibres. From organizational point of view, the textile industry is divided into organized mill sector, powerloom sector, independent processors and unorganized handloom sector. A major part of this lop-sided development has been the outcome of Government policies.

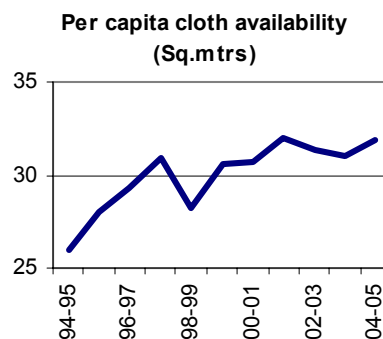
In terms of technological development (measured by the proportion of shuttleless looms), India is far behind most textile economies. India accounts for 40% of World's looms and ranks 1st in the World. However, it has the lowest ratio of shuttleless looms to total looms in the country. At just 2%, it is only higher than Sudan. In similar comparison, China has 15% of its looms in shuttleless form, 10% in Bangladesh, 9% in Pakistan, 13% in Sri Lanka, and the World's average is at 16%. Thus, it appears that India is well placed in the spinning segment of the textile industry while much needs to be developed in the downstream segments for India to have a position in the textile world.

The powerloom sector with 428,600 units has 1.91 million looms. In terms of output, the powerloom sector produces over 60% of all cloth produced in the country. The mill sector produces only 3% of cloth while the hosiery sector's output accounts for 20% of total cloth production. The handloom sector with 3.89 million looms produces 13% of all cloths. Of the total cloth production in India, about 45% is made of cotton and only 13% in weaved with blended yarn. The rest, 40% is made up of 100% non-cotton yarn.

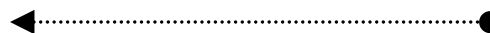
Size and Structure

No. of mills	1,783
Spindles	33.99 mln
Rotors	395,000
Looms (Mills)	137,000
Powerloom units	428,631
Powerlooms	1.91 mln
Handlooms	3.89 mln
Share in world (spindleage)	19%

The per capita availability of cloth in India is around 32 sq meters per annum. The availability of cloth has seen an increase of about 2% per annum over the last 10 years growing marginally ahead of the rate of growth in population.

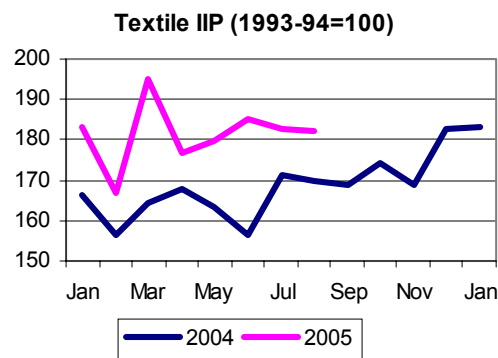


With the liberalization of economic policies, in the early 1990s, changes have swept across the textile value chain, although slowly. Export quotas on spinning sector were removed in 2002, but the burden of Hank yarn obligation still continues. Garment was de-reserved in 2004 while knitwear sector was removed from SSI cover in 2005.



Production Performance

During 2004-05, textiles production increased by 9% (measured in terms of Index of Industrial Production, Central Statistics Organization). This growth was led by 19% increase in the other textile product group, including apparels. During the past 5 years, the performance of cotton textile segment was dismal. Production declined on three occasions, while the entire period saw production grow by a mere 0.5% per annum. On the other hand, production of other textile products, including apparels, increased significantly by 14% in 2002-03 and repeated the feat in 2004-05 by increasing at 19.1. Man-made fibers, wool and silk segment grew by modest 4.5% per annum during the 5-year period 2000-01 to 2004-05.



Post textile trade liberalization in January 2005, Indian textiles production increased leaps and bounds. The first 7-months of 2005 saw production increase 10.3% over the corresponding period of 2004. The growth was fuelled by a 25% rise in production of other textiles (including apparels). Cotton textile also posted an increase of 9%.

Textiles Production

	Fiber Production (Mln kgs)			Spun Yarn Production (Mln kgs)			Cloth Production Mln sq.mtrs	
	Cotton	MMFs	Total	Cotton Blended	100% N-cotton	Total		
1999-00	2652	835	3487	140.2	7.0	7.9	155.0	39208
2000-01	2380	904	3284	169.3	10.0	11.6	190.9	40233
2001-02	2686	834	3520	187.9	10.6	16.3	214.7	42034
2002-03	2312	914	3226	180.2	17.1	27.2	224.5	41973
2003-04	3009	953	3962	186.1	20.0	31.1	237.2	42383
2004-05	3944	1023	4967	228.0	22.0	32.2	282.2	45653

India's profile of exports especially cotton textile has undergone a change over the last 10 years. Between 1994-95 and 2004-05, exports of cotton textiles have increased from US\$2.30 billion to US\$3.79 billion, growing at a rate of 5.1% per annum. In rupee term, the growth rate was 9% per annum. The commodities, comprising the basket of cotton textile exports, have also undergone major changes. Cotton fabrics which accounted for 40% of total cotton textiles exports 1994-95, lost steam in 1996-97, conceding prominence to cotton yarn. Exports of cotton made-ups which until 2000-01, was lagging behind fabrics and yarns, outperformed these components in 2002-03. In 2004-05, exports of cotton made-ups touched US\$1.72 billion from just US\$0.55 billion in 1994-95. This implies that cotton made-ups have increased at a faster rate of 12% per annum.

The table along side is a snapshot of the emerging trends in India's textile and clothing trade with USA and EU in barrier-free trading world. India's exports to USA increased by 11% during the first 6 months of 2005 (January-June) in value terms, while they increased 9% in quantity. Similarly, exports to EU declined marginally by 1.3% in value terms but increased 6% in quantity.

As regards to prices, the average unit value in post-quota period in the USA showed marginal fall of 1.74% for textiles and clothing as a whole. The fall was largely in the clothing sector while textile showed an increase. In case of EU, prices have dropped across textiles and clothing. However, the apprehension of a steep fall in prices anticipated on account of removal of quotas is belied as of now.

Export Performance

Price Realisation (\$ per SME)

	January-June		%
	2004	2005	chg
USA			
Textile/clothing	1.72	1.69	-1.74
Clothing	3.18	3.09	-2.83
Textiles	0.67	0.7	4.48
EU			
Textile/clothing	8.15	7.59	-6.87
Clothing	15.01	13.97	-6.93
Textiles	3.77	3.44	-8.75

Trends in Textiles Exports

	1994-95		2004-05		CARG (% p a)	
	Rs. Mln	\$ mln	Rs. Mln	\$ mln	Rs. Mln	\$ mln
Cotton yarn	26,116	832	51,380	1,145	7.00	3.24
Cotton fabrics	28,913	921	41,646	928	3.72	0.08
Cotton made-ups	17,348	553	77,233	1,720	16.11	12.02
Total	72,377	2,306	170,259	3,793	8.93	5.10

Although the importance of textile industry in the Indian context is well known, the industry is mired with host of difficulties and concerns, both in operation front as well as in the markets. A few concerns raised by textile leaders in the current YnFx Business Confidence survey (Quarter-ending December 2005) relate to Government policies and global competition.

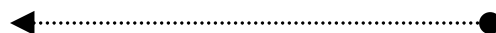
Industry Concerns

Textile companies want Government policies to be favourable and in line with those in the neighbouring countries. They are also concerned about the fierce competition from China.

India, post WTO, was predicted to be only second to China in terms of gains of global textile export share. However, it is only distant second and is being given good competition by Pakistan, Bangladesh, Sri Lanka. The Government needs to work on infrastructure, labour and power reforms and friendlier fiscal and export policies to enhance competition. The industry is also urging for an increase in DEPB rates

There is a need to evolve a viable scheme for refund of indirect taxes, neutralize higher transaction costs, lower fiscal levies on textile machinery, rationalization of export promotion schemes and infrastructural and labour reforms.

India's natural advantages in textiles and clothing sector are also severely hampered by cost disadvantages on account of low productivity, high operating costs and lack on modernization.



As of March 2005, scheduled commercial banks credit to the textile industry reached Rs.385 bln. Of this, 52% was advanced to cotton textile industry while another 46% was accounted by other textile product industry including wearing apparels.

Bank Credit to Textile Industry

Over the last 10-year period, the share of textile industry's bank credit in total credit has declined steadily, although the amount has more than doubled during the same period. The share of bank credit to textiles, which was around 7% between 1995-96 to 1998-99 fell to 4% in 2004-05. This implies a slower growth in advances to textiles compared to overall advances.

Chapter 2: YarnsandFibers Textile Business Confidence Survey

YarnsandFibers has conducted the third consecutive quarterly survey to assess the business expectations of Indian textile companies for the quarter ended December 2005. The survey also coincides with the festive season in India. The survey was held in the first fortnight of October. Three basic indices emerge from this survey: the **YnFx Textile Business Confidence Index**, the **YnFx Current Business Status Index** and the **YnFx Textile Business Margin Expectation Index**. While the first and last measures the future expectations, the current status index is the measure of current performance for the quarter-ended (July-September 2005) vis-à-vis the previous quarter-ended (April-June 2005).

The Third Consecutive Survey

YarnsandFibers' survey also brings to fore major economic constraints to growth faced by textile industry in India. Five major economic hurdles are listed which we believe are beyond the control of a textile unit. Many of them need to be addressed by the community as a whole and the Government in particular. These are, demand, labour, power, finance and infrastructure bottlenecks.

The YnFx Textile Business Confidence Index has been serving as a barometer sensing the health of the industry. It has now become an information backbone on the latest development on a quarterly basis. The index, based on the perceptions of CEO/leader, is valuable for corporate strategy and business planning.

The questionnaire and the index computing methodology are appended at the end of this report. Being the third survey, YarnsandFibers is delighted by the responses given by textile companies. **The sample size has grown from 7% in the first survey of June to 18% in this third survey.** We are confident that the size will increase as we progress into the next survey to be held in late December for business expectations for the quarter January to March 2006.

Chapter 3: Fears of Rising oil Price and Competition

The YnFx Business Confidence Index (a measure of future prospect) for the quarter ending December 2005 stands at 81.6 on the scale of 0 to 100, where the highest is 100, at 50 the confidence is same as today and below 50 implies lower than the current level. The question posed was "What do you envision about your company's performance over the next three months (October to December 2005). The respondents were asked to choose from 3 alternatives: Better, Same as today, or Worse.

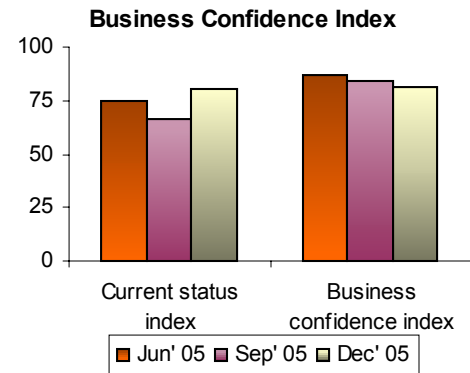
The December index is marginally lower than the previous quarter's business confidence index, which was at 83.9. However, it is much lower than the June index of 86.5 when Indian textile companies were enthused by the opening up of World textile trade. The pessimism in December quarter is also attributed to the galloping global oil prices, which has the potential to raise costs and overall price levels of all commodities. Rising inflation may in turn shrink demand for textiles and clothing.

The fall in the confidence index for December implies that not many companies are optimistic about their performance. In comparison to the earlier surveys of June and September, lesser number of companies expects their performance to be better in the quarter ending December. Further, more companies are expecting their business performance to remain at the same level as it was in the quarter ended September. The only consolation, in this survey, is that only a few companies are expecting their performance to worsen in the ensuing quarter.

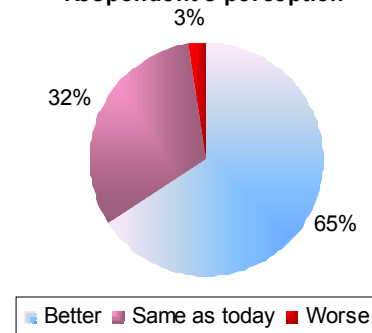
Of the respondents, 65% (74% in September survey) chose the first option indicating that their performance would be better in the next quarter. The proportion is also much lower than the 77% of June survey. While 31% respondents are of the opinion that their performance would remain the same or unchanged compared to the preceding quarter. This proportion has increased from just 19% (respondents) in the June and September surveys. Only 2% of the respondents believed that their performance would worsen in the coming quarter.

A significant change is being undertaken by textile companies to expand their business in the quarter ended December 2005. As many as 42% of respondents have

The YnFx Business Confidence Index

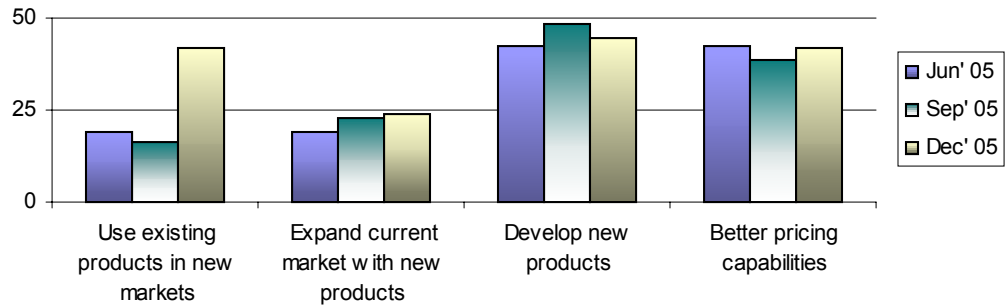


Respondent's perception



indicated that they will use existing products to enter new markets to see their business expand in the quarter ended December 2005. While in the earlier surveys, less than 20% of the respondents had indicated this as a strategy for growth. Developing new products and better pricing capabilities are the main approaches adopted by companies for growth in coming quarter.

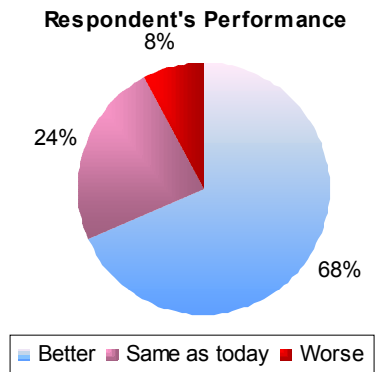
With the opening of textile trade, Indian companies have been gearing up to face competition from major textile exporting countries. Indian textile firms are witnessing better pricing policy and service along with consolidation of customer base to give them business growth. Many are focusing more on export while consolidating existing domestic markets. Many feel that new markets would surely develop, so as the new products too. However, the fear of pricing acceptance in the wake of rising input costs is still a remote reality.



The current business status index stands at 80.3 for the quarter ended September 2005 as against 66.1 for the quarter ending June and 75.0 for March 2005. The question posed was "From your perspective how is your business today (July to September 2005) vis-à-vis 3 months ago (April to June 2005). The respondents were asked to choose from 3 alternatives: Better, Same as today, or Worse. On the scale of 0 to 100, where the highest is 100, at 50 the confidence is same as today and below 50 implies lower than the current level.

To this question, as many as 68% of the respondents indicated that their business performance was much better than that in the earlier quarter (April-June 2005).

YnFx Current Business Status Index



This is a substantial increase from just 51% respondents indicating the same in the previous survey. The Business Confidence Index for the July-September quarter was at 83.9. Thus, the confidence or aspiration of textile companies has apparently turned into reality.

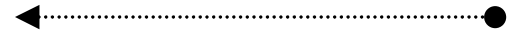
The business margin expectation index stands at 50.7 for the quarter October to December 2005. This is higher than the September quarter's expectation where the index was at 48. Index lower than 50 implies that the companies expect squeeze on their margins while above 50 implies above average operating margins.

The index is based on responses to two questions; "In the next 3 months, do you foresee that you will be able to price your products", and "In the next 3 months, do you see that your suppliers' price you pay will be" with the options: Higher, Lower, or Same as Today.

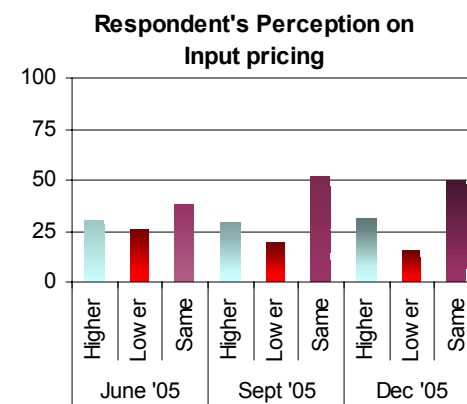
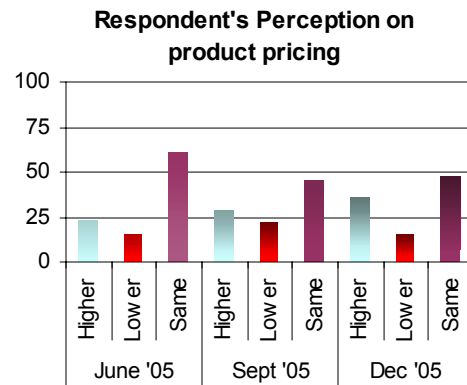
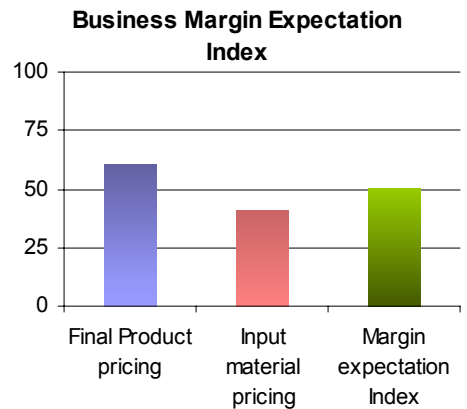
A better operating margin expected by the textile companies in the coming quarter can be gauged from the strategies they would implement. A majority of respondents have indicated that developing new products and better pricing capabilities would expand their businesses. While developing new products would help them produce at lower costs or a better material would fetch them better price. Better pricing capabilities would ensure companies compete with others by lowering their input costs and realizing better price on their end-product. Both moving in adverse direction is likely to improve their operating margins (Low input cost and high end-product price realization).

For the quarter October to December 2005, about 47% of the respondents indicated that their end-product price would remain same as today in the next quarter while 36% believe that they would be able to sell their products at higher price. Only 16% respondents feel that their product prices would decline in the next quarter.

On suppliers' or inputs pricing, 50% respondents felt that input prices will remain the same and 32% expect that they might go up. Only 16% believe that inputs prices may fall.



YnFx Business Margin Expectation Index

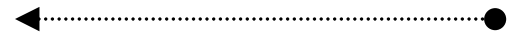
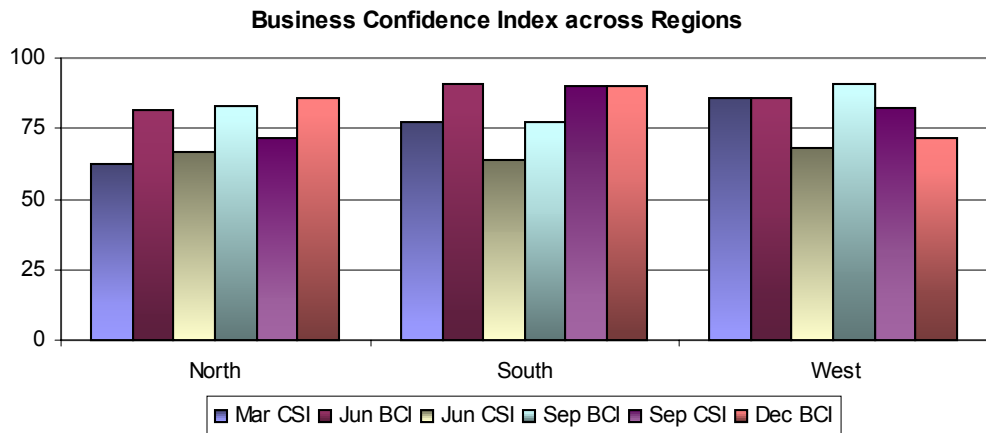


Textile companies in North India continue to be optimistic over their future performance for the third consecutive quarter. Companies in West India have turned a bit pessimistic while those in the South have dramatically turned positive.

Business Confidence across Regions

The Business Confidence Index for the next quarter stands at 85.7 for North India and 71.4 for West India. The Index for textile companies in the South stands high at 90.0.

In the next quarter (October to December), 57% of the northern firms believe that the source for business growth would come from using existing products to enter new markets. About 40% of southern companies too believe the same. Only 25% of western firms incline towards this strategy but 50% of them believe that developing new products would boost their performance in the next quarter. With regards to better pricing capabilities almost 40% of all firms in each region have indicated that this strategy would give them growth in next quarter.



The optimism seen in large firms during previous two surveys has apparently petered away in this survey for the quarter ending December 2005. The Business Confidence Index for large textile companies with sales turnover of over Rs.5 billion, stands at 87.5 for December ending quarter down from 100.0 in both the September ending quarter as well as in June quarter.

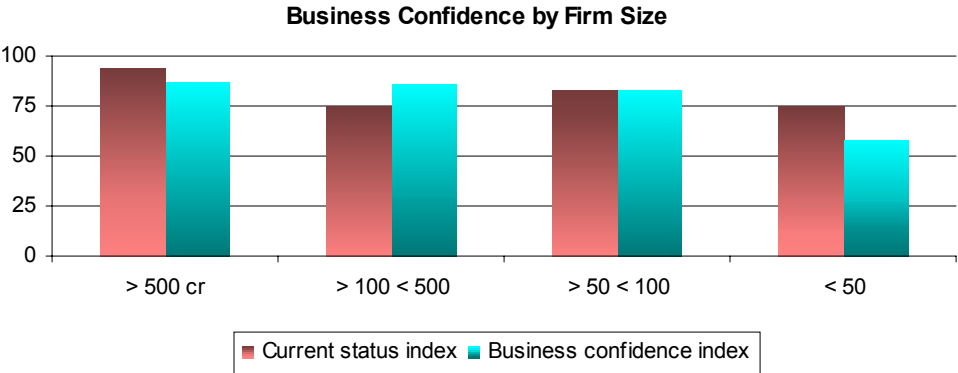
Business Confidence across firm size

For companies with sales between Rs.1 billion to Rs.5. billion, the business confidence index stands at 86.1 slightly lower than the 88.5 for September quarter.

The business confidence index for companies with sales between Rs.0.5 billion and Rs.1 billion has improved and stands 83.3 for the next quarter (October to December), up from 75.0 for September quarter. Smaller size companies are seen to be losing steam over the past 3 quarters. The Business Confidence Index for these companies has fallen steadily; from 77.8 for June quarter to 62.5 for September and further down to 58.3 for the December quarter.

Large companies have now come to believe that using existing product to enter new markets and simultaneously developing new products would give them better growth in next quarter. About 62% of respondents have indicated the former to give them growth while 50% said that the latter option will boost their performance. About 67% of companies with sales value between Rs.0.5 billion to Rs.1. billion also feel that better pricing capabilities will heighten their performance in coming quarter.

About 50% of large companies have indicated that infrastructure bottleneck will be the major constraint to growth. About one-third of companies with sales less than Rs.5 billion have pointed out that lack of demand would hamper their growth prospect in coming quarter. While two-thirds of the companies with sales between Rs.0.5 billion and Rs.1 billion see poor quality power as a major constraint to growth.



Indian textile companies will be increasingly looking at opportunities for exports in markets of USA and Europe as the trade talks between China and USA remains inconclusive. Both, EU and USA, have imposed limitations on imports from China on grounds that Chinese products are hampering their textile industry. India has been a major textile exporter in the world and taking advantage of this situation is apparently plausible.

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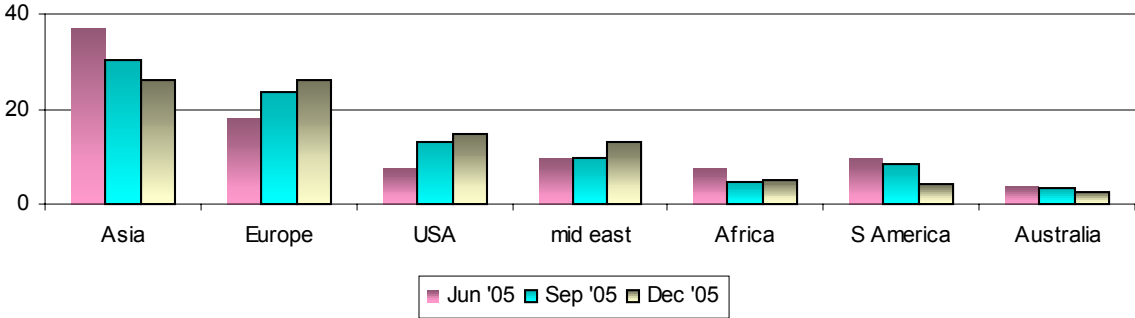
Where is the export market

The survey results indicate that 26% of the respondents will be targeting Europe as one the top destinations for export growth. The next preferred destination is USA with 15% respondent looking for export growth. In the earlier surveys, 24% (in September quarter) and 18% (in June quarter) respondents were looking at EU while 13% (in September quarter) and 8% (in June quarter) were targeting USA. Asian markets, like Korea, China, Taiwan seems to have lost the luster for Indian exports. Only 26% of the respondents indicated Asian markets as top destination for exports. This proportion has come down dramatically from the earlier surveys when 30% (in September quarter) and 37% (in June quarter) had indicated that Asian markets would give them export growth.

A noticeable change is seen in the current survey with firms looking at other export markets for growth in the quarter ending December 2005. Increasing number of companies will be targeting Middle East, particularly Gulf region and Turkey for export growth. About 13% of respondents have indicated Middle East as the top destination for export growth as against 10% in June and September quarters.

Companies targeting EU and Middle East for export growth have indicated that developing new products will give them growth in the coming quarter. While those preferring Asia and USA have indicated that better pricing capabilities will enhance their performance in the next quarter. These distinctive strategies indicate that USA and Asian markets are price sensitive while EU and Middle East are quality conscious.

Major Markets for Export Growth



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Constraints to Growth

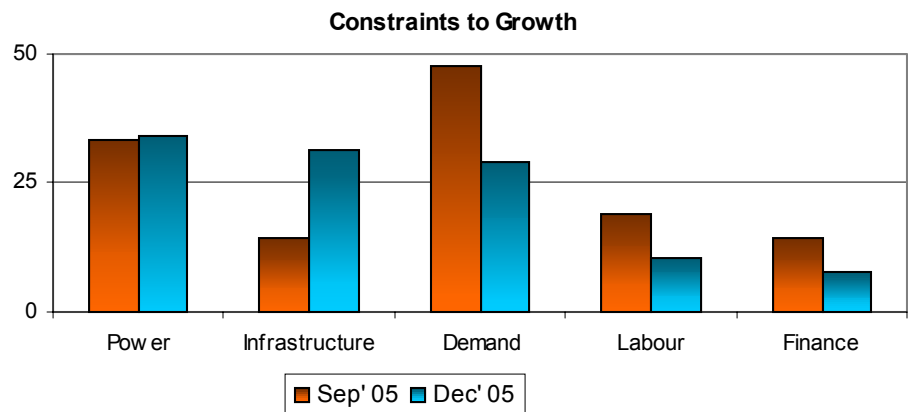
Beginning from the second Business Confidence Survey, YarnsandFibers have been bring together opinions of textile firms on the major constraints they face in their businesses which are largely outside their control. The survey for quarter ending December, indicate that firms would be facing power and infrastructural bottlenecks for growth in coming quarter. About one-third of the respondents feel that these two would be major constraints. Demand constraint, which was prominent in the September quarter survey, has lost significance in the December quarter. Only 29% of respondent now face demand constraint as against 48% in the September quarter. Labour and finance constraints are likely to hamper growth of 11% and 8% of the respondents in the December quarter

Demand was a major constraint to most textile firms across the country. The issue was more prominent to western and southern textile firms than the textile firms in north India. Western firms were also facing power shortages. About 50% of the respondents from western India said that power was a major constraint to growth. A few firms (only western India) have also indicated that finance was one the problems to their growth performance.

Infrastructure and power constraints will be largely affecting textile companies in the western region. About 50% and 35% of the respondents in west India have indicate the power and infrastructure would be respective bottlenecks for growth. About 40% of Southern textile companies have indicated that labour and power would hamper their growth in coming quarter, while 35% of northern firm believe that demand would be a major constraint.

Large companies (sales value above Rs.5 billion) would face major infrastructure bottlenecks to growth.

Inadequate transport and port facilities are the key hurdles. About 66% of firms with sales size between Rs.0.5 billion to Rs.1 billion have pointed out that quality power supply is a major constraint.



Chapter 4: Conclusions

Textile firms are a bit pessimistic over their performance during the quarter ending December 2005 as compared with their performance in the September quarter. The YnFx Business Confidence Index, computed by YarnsandFibers through its third consecutive survey, stands at 82.6 down from the 83.9 for September 2005 quarter and 86.5 for the June quarter. The fall in enthusiasm stems from two factors, one rising crude prices and fierce competition from China.

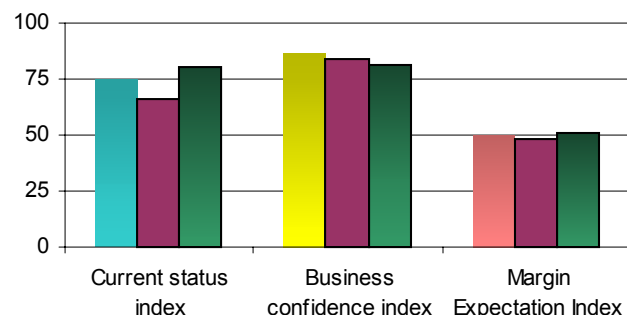
The YnFx Current Business Status index for the quarter ending September stands at 80.3, much high than the 66.1 for the quarter ended June 2005. For the quarter ended March 2005 the index was at 75.0. Current Business Status index measures the companies' actual performance in comparison with the preceding quarter.

However, rising oil prices are bothering textile companies but many of them feel that they can be partially passed on to consumers. This is evident from the YnFx Business Margin Expectation Index, which stands at 50.7. The index measures the firms pricing capabilities for their end product as well as for the inputs. On a scale of 0 to 100, the highest is 100, at 50 the confidence is average and below 50 imply pessimism.

An increasing number of firms now believe that the greatest source for growth in coming quarter would be by pushing existing products in new markets. Simultaneously they would also develop new products. However, better pricing capabilities would continue to remain their main thrust for growth.

With USA and EU imposing limitations on Chinese imports, Indian textile companies are now focusing on these two markets for export growth in coming quarter. Many firms are also looking at Middle East, particular Turkey and Gulf region as potential export markets.

Power supply and infrastructural bottleneck are indicated as major hurdles for growth in coming quarter. About one-third of respondent feel that these two would impair their growth. Demand constraint, which was prominently indicated as impeding growth is no longer a hurdle for many companies. However, pricing acceptability would be a cause of concern for many companies.



Appendix I: Statistical Tables

Table 1

YnFx Textile Business Indices				
	Mar' 05	Jun' 05	Sep' 05	Dec' 05
YnFx Textile Business Indices				
Current Status Index	75.0	66.1	80.3	
Business Confidence Index		86.5	83.9	81.6
Margin Expectation Index		50.0	48.4	50.7

Table 2

Respondent's Perception (% Distribution)				
	Mar' 05	Jun' 05	Sep' 05	Dec' 05
Business Confidence				
Better		76.9	74.2	65.8
Same as Today		19.2	19.4	31.6
Worse		3.8	6.5	2.6
Current Status				
Better	65.38	51.61	68.42	
Same as Today	19.23	29.03	23.68	
Worse	15.38	16.13	7.89	
Margin Expectations				
Higher		26.9	29.0	34.2
Same as today		50.0	48.4	48.7
Lower		21.2	21.0	15.8

Table 3

Respondents Perception on Growth Strategies (% Distribution)				
	Use existing products in new markets	Expand current market with new products	Develop new products	Better pricing capabilities
Jun' 05	19.2	19.2	42.3	42.3
Sep' 05	16.1	22.6	48.4	38.7
Dec' 05	42.1	23.7	44.7	42.1

Table 4

Region-wise YnFx Textile Business Indices						
	Current Status Index			Business Confidence Index		
	Mar' 05	Jun' 05	Sep' 05	Mar' 05	Jun' 05	Sep' 05
North	62.5	66.7	71.4	81.3	83.3	85.7
South	77.3	63.6	90.0	90.9	77.3	90.0
West	85.7	68.2	82.1	85.7	90.9	71.4

Table 5

Size-wise YnFx Textile Business Indices						
Sales value Rs.crore	Current Status Index			Business Confidence Index		
	Mar' 05	Jun' 05	Sep' 05	Mar' 05	Jun' 05	Sep' 05
> 500 cr	100.0	100.0	93.8	100.0	100.0	87.5
> 100 < 500	56.3	53.8	75.0	87.5	88.5	86.1
> 50 < 100	90.0	75.0	83.3	90.0	75.0	83.3
< 50	72.2	50.0	75.0	77.8	62.5	58.3

Table 6

Respondent's Choice of Export Destination (%)			
	Jun '05	Sep '05	Dec '05
Asia	37.2	30.1	26.3
Europe	17.9	23.7	26.3
USA	7.7	12.9	14.9
mid east	9.6	9.7	13.2
Africa	7.7	4.8	5.3
S America	9.6	8.6	4.4
Australia	3.8	3.2	2.6

Table 7

Distribution by Constraints to Growth		
	Sep' 05	Dec' 05
Power	33.3	34.2
Infrastructure	14.3	31.6
Demand	47.6	28.9
Labour	19.0	10.5
Finance	14.3	7.9

Appendix II: Methodology

The data for the construction of YnFx Textile Business Confidence Index is derived from the responses sent back by the business firms across the country in early October 2005. The survey questionnaire comprised 7 questions which are variables used as index components. The Questionnaire is appended at the end of this report.

In answering these 7 questions, the respondents are asked to choose one of the 3 alternatives: Better, Same as today, worse and in some cases the alternatives were: Higher, Same as today, Lower. The respondents are also asked the prospective product and pricing strategies and regions/countries, which they perceive would provide growth to their company.

These questions focus on the forecasting of business and economic conditions of over the period of next three months and current status compared to those in the previous quarter.

The sampled firms were selected from listed companies and those privately held. The respondents were mostly the business leaders, business owners themselves, or corporate executives who understood the purposes of the questionnaire and could give full co-operation. These representative firms covered a wide range of textile businesses like spinning, weaving, garment manufacturing.

In the assessment process of the responses received, the qualitative data (business views) is converted to quantitative data (numbers and points) before the sentiment index can be constructed through the application of an indexing approach called diffusion index.

The index finally derived will be an indicator of the business and economic sentiment. Highest index is 100 while the lowest is 0.

Reading of index is as follows:

1. Index of 50 means business sentiment remains stable.
2. Index above 50 means business sentiment has improved.
3. Index below 50 means business sentiment has worsened.

Computation of index comprises the following procedures:

1. Converting the qualitative data into quantitative data by scoring the responses received within the criteria below:
 - The score of 1 are assigned to the answers that show +ive sentiment
 - The score of 0.5 is given to "no significant change" answer.
 - The score of 0 are assigned to "Worse or lower" responses.
2. Adding all the scores obtained then dividing the total score by the number of respondents and multiplying the final figure by 100.
3. There are three types of indexes constructed:
 - the current status - the index derived from the current performance surveyed data
 - the Business Confidence index- the index derived from the data surveyed one three months in advance
 - The Business Margin index - the index derived from the data surveyed on product and raw material pricing.

Appendix III: Questionnaire

Business Confidence Index Survey: December 2005

1. From your perspective how is your business today vis-à-vis 3 months ago?

- Better
 Worse
 About the same

Comments, if any: _____

2. What do you envision about your company's performance over the next 3 months?

- Better
 Worse
 About the same

Comments, if any: _____

3. Where do you see the greatest source/s of growth in the next 3 months?

- Use existing products to enter new market
 Expand current market with same product
 Develop new products
 Better pricing capabilities

Comments, if any: _____

4. Which top 3 regions / countries do you see export growth to come from for your company in the next 3 months?

1. _____
2. _____
3. _____

Comments, if any: _____

5. In the next 3 months, do you foresee that you will be able to price your products?

- Higher
 Lower
 Same as today

Comments, if any: _____

6. In the next 3 months, do you see that your suppliers' price you pay will be?

- Higher
 Lower
 Same as today

Comments, if any: _____

7. What are the constraints, in your opinion for your company's growth in the next 3 months?

- Demand
 Labor
 Power
 Finance
 Infrastructure

Comments, if any: _____

Additional Comments:

Appendix IV: About YarnsandFibers

Launched in 1998, YarnsandFibers has emerged as a leading provider of Market Intelligence and Market Development.

Members range from over a 150 countries and include all major companies in the segment. With this global footprint, YarnsandFibers is in an ideal position to understand business needs and help the transition beyond the expiry of the quota regime in 2005.

Since inception, YarnsandFibers.com has focused on delivering relevant Market Intelligence & assisted Market Development. YarnsandFibers has successfully combined the online & offline mechanism to deliver maximum value to its users.

In a world of information overload, YarnsandFibers has worked relentlessly to pursue its belief that effective Market Intelligence is the **right** information reaching the **right** person at the **right** time.

In pursuit of this, YarnsandFibers.com has three primary services

1. The PriceWatch Channel
 - Price trends covering 22 products of the Fiber Value Chain
2. The Industry News Channel
 - Daily news updates from around the world
3. The Industry Reports & Statistics Channel
 - Well researched reports on current topics and statistical data on production, consumption, demand-supply, etc

This encompasses all that a businessman would ever want to know about the goings on in the Textile Business.