

A stitch in time needed for stretched textile cos

M Allirajan | TNN

The global financial storm is making a slow and steady retreat, bringing hopes of a faster recovery. But for the textile industry, which exports clothing worth about \$20 billion a year, it's not all over yet. Poor demand, pricing pressures and demand for longer credit periods from western buyers, which have come to signify the post-crisis order in textile exports, continue to bedevil the industry.

"This has been the worst period in the past 15 years. Though there are signs of improvement, there is no certainty (about recovery)," says P Nataraj, MD, K P R Mill, a large integrated textile company.

"We are still not seeing any considerable growth in business. Consumer spending has not picked up and there is no big difference in business (volumes)," says P Sundar Rajan, MD, S P Apparels, a leading export house near Tirupur. Garment exporters, who opted for



credit risk insurance in a big way following increase in defaults, are still finding it difficult to open lines of credit (LC) with buyers. "Buyers are negotiating for longer credit periods. We are still not able to open LCs and as a result our fund flow has been hit," says Raja M Shanmugham, a Tirupur-based exporter. An LC is considered a secure way of getting money and payments are usually done promptly under this mode.

While in the early days of the crisis, buyers wanted a 30-day credit period, they now demand 90-120 days credit, say exporters.

"Payments, especially by smaller buyers, are not that prompt and takes double the normal time," says Nataraj. And with volumes falling, retailers who got into a price-cutting spree after the crisis erupted are carrying it on with a renewed zest.

A 15-20% price cut has shrunk operating margins significantly for exporters. "We used to get 10% margins but it has come down to just 2%," says an exporter.