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Textile mills see red for much of FY12

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High cotton prices, coupled with fluctuating inventory, saw textile and clothing (T&C) companies post a dip in bottom line by over 100 per cent in many cases over 2011-12, says the Confederation of Indian Textile Industry (Citi).

"There is no issue with cotton prices rising, if they do so gradually. However, from October 2010 to March 2011, prices rose from ₹34,000 per candy (356 kg) to ₹63,000 per candy. In the next one month, it almost came down to where it (originally) was. Such high fluctuations led to textile mills incurring heavy losses," said D K Nair, secretary-general of Citi.

According to data compiled by the Centre for Monitoring Indian Economy, of 234 T&C companies, 74 per cent or 174 saw poorer financial results for the first three quarters of 2011-12. And, of these 174, as many as 130 were net loss-making.

Aarvee Denims & Exports, based here, is an instance. From a net profit of ₹27.4 crore for the first three quarters in 2010-11, it posted a 61 per cent dip to register a mere ₹10.8 crore profit after tax (PAT) by December 31, 2011, for the cumulative April-December period.

"As if the high cotton prices were not enough, our overheads, labour and fuel costs also rose sharply. Currency fluctuations also continued for much of the first three quarters. However, it was the high inventory costs that ate into our bottom line," said Utsav Pandwar, financial controller at Aarvee.

The cotton price fluctuations, said Nair, impacted almost the entire value chain of textiles, from spinning to garments. "Vardhman Textiles had never registered a decline in net profits in its entire history until the last fiscal," Nair added. The integrated producer saw net profit dipping 84 per cent to a cumulative ₹53 crore over April-December 2011. The company earned net profit of ₹330 crore for the corresponding period in 2010-11.