

Intricately woven



THE textile industry stole the limelight yet again this Budget, with the Finance Minister

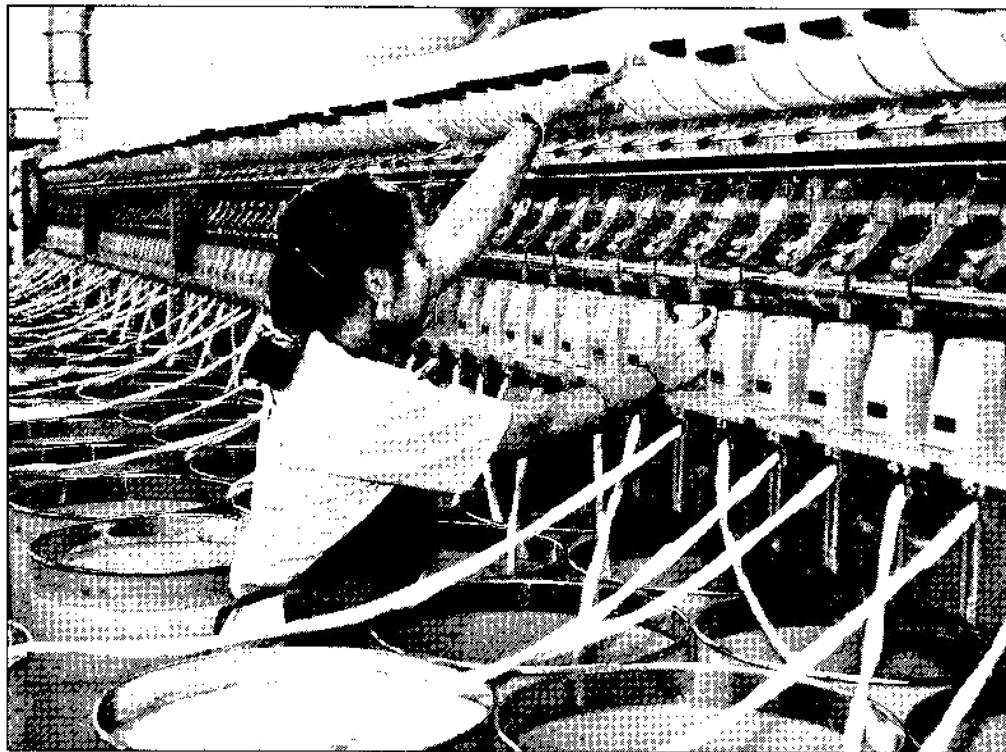
announcing a number of packages for the sector. While the cotton textiles segment was the main beneficiary of the Budget announcements last July, it was the synthetics textile segment that got a lift this time.

The gains for the companies in the synthetics sector, such as Reliance, Indo Rama Synthetics (and, perhaps, Bombay Dyeing, as it plans to set up its own Polyester Staple Fibre Plant), are however, a mixed bag. For Indo Rama Synthetics, the only stand-alone manufacturer of polyester, the reduction in excise duty on polyester filament yarn (PFY) from 24 per cent to 16 per cent, would be a positive.

Unlike Reliance, the company is not fully integrated and would also, therefore, stand to gain from the reduction in customs duty of intermediates such as PTA (purified terephthalic acid) and MEG (monoethylene glycol).

The reduction in Customs duty on polyester chips and other fibres from 20 per cent to 15 per cent, however, would reduce the duty protection the company enjoys. With increased competition from imports, PFY manufacturers may be inclined to pass on the benefits from the reduction in excise duty to the user.

If this were to happen, companies such as Rajasthan Spinning, for which polyester fibres



Picking up the threads.

account for nearly 50 per cent of the raw material consumed, stand to gain. Mahavir Spinning and Raymond would also be among the companies that would benefit from lower prices of man-made fibres.

While excise duty on PFY has been reduced, that on other man-made fibres such as acrylic and viscose, have been maintained at 16 per cent, counter to expectations that it would be slashed to 8 per cent. The synthetic sector is, therefore, still likely to be at a relative disadvantage when compared to the cotton sector.

For companies that have integrated facilities or operate at the higher end of the value

chain, the lowering of customs duty across inputs augurs well. Companies that import a substantial amount of their raw material would particularly benefit. The garments division of Indian Rayon (Madura Garments) would benefit from the lower duties on fabric, as it imports the bulk of its fabric requirements.

The Budget package also unveiled incentives that would stimulate investments in the weaving and processing sector.

The 10-per cent capital subsidy that has been extended to the processing sector under TUFs would benefit companies such as Mahavir Spinning and

Alok Industries, which have their own processing facilities.

The reduction of customs duty on textile machinery from 20 per cent to 10 per cent would bode well for companies that are on an expansion drive. Companies such as Raymond, Mahavir Spinning and Alok Industries, which have recently announced expansion plans, stand to gain. The de-reservation of products such as hosiery, which was previously earmarked for the small-scale sector, is positive for the industry and should stimulate investments in the rapidly growing segment.

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