

Raymond's new denim factory in Bangalore. The company is the second largest manufacturer of ring denims in India. This unit will convert denim into garments for big retailers like Wal-Mart



# LEAP of FAITH

Indian textile majors are investing in large garment units. This will give them a fair chance against larger Chinese rivals, says **T Surendar**

## THE MISSING THREADS

### labour policy:

Unlike the textile business, garment manufacturing is labour intensive. It is also cyclical requiring companies to lay-off people during a downturn. Unless, labour laws are liberalised, scaling up garment operations may be a tricky proposition.

### infrastructure

A garment business is typically driven by fashion and fads and so big retailers lay emphasis on exacting delivery schedules. The country's port and road infrastructure isn't yet primed up for the export business. It may well be the bottleneck for more big factories to come up and also for existing ones to stick to deadlines.

### mindset

At most textile companies, decision-making is dominated by managers who run the larger fabric business. Garment business is still a fledgling for the textile company and don't often get production priority. Besides, the understanding that speed is critical is often missing.

## WAITING IN THE WINGS

More and more textile companies are betting big on garments business now

- MAHAVIR SPINNING: **SHIRTS**
- RAJASTHAN SPINNING: **TROUSERS**
- ALOK INDUSTRIES: **KNIT GARMENTS**
- LOYAL TEXTILE MILLS: **INDUSTRIAL SUITS**
- BOMBAY RAYON: **SHIRTS**
- K G DENIM: **DENIM APPAREL**

**W**hen the World Trade Organisation removed quota restrictions on countries exporting garments on January 1, 2005, Indian garment firms were simply nudged aside by their bigger and financially stronger Chinese rivals. The Chinese firms had already built huge factories in anticipation of new orders and managed to walk away with a big chunk of orders from American, European and Japanese importers. All that the relatively smaller Indian firms could do was to wait and watch.

Playing catch-up with the Chinese seemed a distant possibility. In size, India's biggest garment companies Bangalore-based Gokuldas Images and Delhi-based Orientcraft are just a fifth in size compared to the top Chinese companies. Indian garment exports are only a tenth of what the Chinese exported last year.

Two years ago, after the Sars epidemic in China, India had the perfect opportunity to up the ante. Most foreign buyers wanted to de-risk their outsourcing strategy by placing a part of their orders with Indian companies. Many global buyers like European retail chain H&M wanted to place 30% of their orders with India. Unlike many other exporting countries, the buyers also discovered that India had a robust cotton textile sector and figured that sourcing from India would save them time and money. But there was one problem: there weren't enough factories with the capacity to handle large orders.

That scenario could be changing soon. About 18 months ago, large Indian textile players finally stepped up efforts to build new garment factories, that too on a scale that has never been seen before. And this new surge of confidence is already beginning to show early results. Six months ago, one of India's biggest

### Arvind Mills will use premium cotton fabric from its mills to earn better prices in the global market

textile manufacturers, Raymond set up a separate fully owned subsidiary, Silver Spark Apparel.

The new company has a spanking new suits and trouser factory, built at a cost of Rs 42.5 crore, on the outskirts of Bangalore, which churns out 1500 suits and 4000 trousers a day. Till then, there were just a couple of suit plants in the country and they were just a third the size of the Raymond's new factory. Even before the factory went on stream, foreign buyers from Japan and Europe had completely booked the output for an entire year, says Raymond's managing director Gautam Singhania. Singhania is now scaling up a new 10,000 jeans a day denim apparel plant, along with a new shirtings plant, which will manufacture 6000 shirts per day when complete.

Arvind Mills, the country's other textile biggie, isn't missing out on the opportunity. It has set up a state-of-the-art garment manufacturing plant also in Bangalore. Its shirting plant which will manufacture 4.5 million shirts a year has been set up in technical collaboration with CF Italia, an apparel consultancy firm. Arvind, one of the largest denim manufacturers in the world, has also put up a 3.5 million pieces a year denim apparel plant and a 1.5 million pieces trouser plant.

In some ways, these new factories represent a new hope for the Indian garment industry. A lot of it stems from the way they have been planned. Till two years ago, garment manufacturing was reserved by law for the small scale sector or companies with a paid-up cap-

ital of Rs 5 crore. This rule ensured that Indian garment factories remained small compared to their global competitors. The government has now not only scrapped this law, it has also offered cheaper loans to companies to upgrade their manufacturing technology.

The big companies like Raymond and Arvind have made full use of the opportunity. Today, Raymond's 10,000 pairs a day jeans factory or Arvind's 4.5 million shirts a year factories in Bangalore are among the biggest such units in the country. In comparison, even today, the average size of a shirting factory set up by the smaller garment manufacturers are just a fourth of Arvind's unit.

It is not just size that differentiates these factories. Again, unlike the smaller companies who are often constrained by lack of capital to expand capacity, Raymond has plenty of cash stashed away from its sale of assets some years ago. That has allowed the company to import expensive machines and automate its factories, which give it the wherewithal to efficiently handle large orders. The denim apparel unit has computers to optimise cloth usage before it is cut to make the apparel. High-tech laser machines give various finishes to the products and a high-tech washing machine to give the denim fancy finishes. Raymond has even put an automatic embroidery machine to make designs on jeans.

In Arvind's plant, shirting fabric is automatically spread out by machines, quality checked and cut before it hits the stitching line. The shirt's collars and cuffs are machine fused and even the folding and packaging is done by machines. Says Raymond managing director Gautam Singhania, "We will use our scale and efficiency to effectively handle big orders from the likes of Wal-Mart."

Buyers walking into Raymond's factory already seem impressed. Singhania says that the response has been overwhelming and he now has the luxury to be choosy about which orders to fulfil.

It is not hard to see why. Raymond is one of the largest manufacturers of ring denim, a special quality, and has also the technology to make the finest woolen suiting material. It recently made 220S, a superfine woolen fabric, for which only a handful in the world have the technology to weave. Arvind has been a supplier of denim to US-based Levis for many years now. This reputation already brings them customers from all over the world to buy fabric from their factories. In fact, some of these customers wanted Raymond to convert their fabric into finished apparel, as costs of manufacturing was rising in Europe and other developed countries.

Flex Japan, which partnered Raymond, to set up its shirts factory, now plans to pick up the stocks as well, once the factory is ready. Levis' not only allowed Arvind to train its technicians at its global apparel factories, but has promised to source garments from the new Bangalore factory. Says Devangshu Dutta, chief executive, Third Eyesight, a firm specialising in fabric and garment business, "It makes perfect sense for fabric manufacturers to start making garments. Unlike small companies, they already have managerial systems and processes in place to help them scale up fast."

But it's not just the two industry biggies who've ventured into garment manufacturing. In fact, more tex-

tile manufacturers are waking up to the same opportunity. L N J Bhilwara group's Rajasthan Spinning, Vardhaman group's Mahavir Spinning, K G Denim and Alok Textiles and many more either plan or have set up factories for different slices of the garments pie. (see box) Says Pavan Kapoor, technical director, India Industrial Garments Machinery, one of the oldest suppliers of garment machinery, "The motive for most textile companies is to move up the value chain. Each one is evolving their own niche strategy to grow beyond their textile business."

Yet this high-tech manufacturing fits in well with

### Raymond's Singhania plans to use scale and efficiency to effectively handle big orders

their basic business strategy: focussing on value-addition through design and fabric innovations. Instead of following the Chinese strategy of producing millions of basic garments, the Indian firms have figured it makes more sense to use their strengths in design and textile technology to grab the high value, high margin segments of the pie.

So, while the rest of the Indian garment industry focuses on executing complex but small customised orders, these big textile companies are focusing on the high technology, high value orders that will allow them sufficient margins to compensate for their initial capital investment. Raymond is looking to tie up with the big fashion brands in Europe and Japan to sell their suits. For its shirts, Arvind will use premium cotton fabric from its mills and expects to peg them at \$10-15 as against \$5-8 for players in the unorganised sector. Raymond hopes that its laser technology and embroidery will fetch the niche orders for which it can charge a premium.

Arvind is trying other methods too. To provide additional service to the buyer, it has set up a studio which will churn out exclusive lines for every season. For instance, an overseas buyer coming to Arvind's Bangalore plant can at one go source fabric, avail of the design services and get the garment made at one location. Says an Arvind executive, "By offering these unique services, we place ourselves a cut above the competition and it adds to our exclusivity."

Singhania also sees other advantages in pegging his services a cut above competition. Fashion houses in Europe thrive on the exclusivity of their designs. It is common knowledge that Chinese companies make counterfeit versions of original designs outsourced to them and sell millions of metres of the same design in their local market. Says Singhania, "We are certainly not pitching ourselves against the Chinese model of high volumes and low margins. We want to be an exclusive, high margin player in this business."

While it may be the best course of action, Third Eyesight's Dutta says that there is some still way to go for these companies to call themselves garment companies. For one, the investments are still small compared to global sized plants elsewhere in the world. Denim plants in Brazil and China would still be thrice as large as the latest Indian ones. Garment making is still a small portion of the total business of textile companies. As a result, the managers tend to miss out on the intricacies of the garment business. Says Dutta, "The textile companies need a mindset change to become garment companies."

