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Appreciating rupee a challenge for domestic textile firms

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The appreciating rupee has posed a major challenge to sustaining the growth of the domestic home textiles industry, which has seen a turnaround in the past few quarters on low raw material prices.

Major players in this segment, including Bombay Dyeing, Trident, and Welspun, have seen a sharp turnaround in profitability over the last six quarters despite challenges in domestic demand due to demonetisation, followed by the apprehensions on the goods and services tax (GST) in the June quarter 2017.

Bombay Dyeing, for example, has seen its gross operating profit increasing to ₹211.36 crore on a turnover of ₹447.50 crore for the March quarter 2017. It posted a loss of ₹52.97 crore in the December 2016 quarter.

Similarly, Trident and Welspun Enterprises also reported an increase in profitability in the January-March quarter of 2017. "The Indian textiles industry is facing challenges in the form of currency risks, increasing competition from China due to an unfavourable currency, and higher raw material costs. We believe that cotton prices are likely to soften from Q2FY18 on expected higher supply due to liquidation of inventory and enhanced cotton sowing in India," said Sumant Kumar, an analyst with Emkay Global Financial Services Ltd.

China's currency, the yuan, is down by around 4 per cent in the past three months but the rupee has appreciated by around 4 per cent in the same period. The recent currency movement has given China an advantage over India. Observers, however, see weakness in the rupee against the major global currency.

Hence, experts say that the currency risk for Indian home textile players is likely to be moderate in the coming year. Moreover, India will continue to enjoy cost advantages in home textiles on lower labour cost, better cotton availability, and favourable government policy.

"We believe that the Indian home textiles industry will recover and mitigate short-term risks like higher raw material costs and currency volatility," said Kumar.

The profitability increase in the home textiles sector has reflected in their stock price movements also. Bombay Dyeing stock closed on Friday at ₹83.30 against its 52-week high of ₹92.95. Similarly, the share prices of Trident and Welspun closed at ₹83.95 and ₹135.95 against their 52-week highs of ₹92.30 and ₹149.30, respectively.