



Impact of Union



on

Textile Industry

February 28, 2011

Corporate Office

Peninsula Towers, Peninsula Corporate Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai

– 400 013

Tel.: 24996200 / 500 Fax: 91-22-24936078

Email: info@alokind.com

Impact of Union Budget 2011-12 on Textile Industry

General:

The Budget 2011-12 started on the backdrop that the growth in 2010-11 has been swift and broad based and has put the economy back to its pre-crisis growth trajectory. All the sectors of the economy, agriculture, manufacturing and service sectors have done well. Fiscal consolidation has been impressive. However, food inflation though has come down from last year level, continues to remain a concern.

In the medium term, three priorities continue to be the driving force – a) Sustaining a high growth trajectory, b) making development more inclusive and c) improving our institutions, public delivery and governance practices. In the short term, however, the main priorities are to ensure momentum in private investments in line with the private consumption and improve the supply response of agriculture in line with the expanding domestic demand. Measures on both these issues will help in inflation management and bring more stable macroeconomic environment for continuing high growth.

On the macro economy level, the Gross Domestic Product (GDP) is estimated to have grown 8.60% in 2010-11 in real terms and the economy has shown remarkable resilience to both external and domestic shocks. Fiscal deficit for 2010-11 has been brought down from budgeted 5.50% to 5.10%. The fiscal deficit target for 2011-12 has been kept at 4.60% of GDP and to progressively reduce to 3.5% of GDP by 2013-14.

Some of the proposals of the Budget and its impact on the Textile sector are given below:

INDIRECT TAXES

Custom Duty Proposals

As a measure of rationalization of duty structure, the rates of 2% and 3% are being unified with the median rate of 2.50%.

There has been no major change in the custom duty rates on textile related items. Some of the benefits provided are:

- i) Basic custom duty on Nylon chips, Nylon yarn and Nylon fibre is being reduced from 10% to 7.50%.
- ii) Basic custom duty on Rayon grade wood pulp is being reduced from 5% to 2.50%.
- iii) Basic custom duty on Cotton waste is being reduced from 10% to nil.
- iv) Basic custom duty on raw silk (not thrown), of all grades is being reduced to 5%.
- v) The list of specified goods, allowed to be imported duty free for use in manufacture of textile garments, is being expanded by including anti-theft devices like labels, tags and sensors therein.
- vi) Subject to certain conditions, the benefit of duty free import is being extended to trimmings, embellishments, components etc. against export of textile garments by merchant exporters.

Excise Duty Proposals

The goods which were under concessional central excise duty rate of 4% are now being subject to 5%.

There has been no major change on the central excise rates on Textile related items.

i) Levy of excise duty on branded garments and made ups

The optional scheme for payment of excise duty on readymade garments and textile made ups, which bear a brand name or sold under a brand name, would no longer be available. An excise duty of @10.30% is being imposed on garments without Cenvat credit facility. The general SSI exemption has been extended to such goods. The tariff value for charging duty on ready-made garments and textile made ups would be @ 60% of retail sale price.

This would be negative for the domestic branded garment retailers as this levy would increase the price of branded goods at the retail level by about 6%. This has come at a time when the domestic garment retailers are faced with the challenge of passing the high cotton prices to the end consumers, thus, making retail of garment and made ups further difficult.

Further, the excise duty is normally levied on the manufacturer on the cost of manufacturing. In this case, the duty has been levied on 60% of the MRP. Normally, MRP of the branded garments / made ups is 3 – 4 times of the cost of manufacturing, thus, it has resulted into higher incidence of excise duty on garments / made ups. This would also require, in some cases, small garment retailers to register with Excise authorities and maintain lot of records and therefore would result into increased paper work, filing of returns and would ultimately result into higher cost of transaction.

ii) Excise duty has been reduced on parts of 40 specified textile machinery and equipments from 10% to 5%

Service Tax:

There is no change in service tax structure and it remained at 10%.

DIRECT TAXES

i) Minimum Alternative Tax (MAT):

The MAT rate has been increased for corporate from 18% to 18.50%. However, the surcharge has been reduced to 5% from existing 7.50%. The 3% education cess has been continued. As a result, the effective tax rate for corporate under MAT has marginally increased from 19.93% to 20%.

ii) Personal Income Tax:

- a) Exemption limit for the general category of individual tax payers enhanced from Rs. 1,60,000/- to Rs. 1,80,000/- giving uniform tax relief of Rs. 2000/- to every tax payer. The revised slab for individual taxation is as under:

For A.Y. 2010-11		For A.Y. 2011-12	
Income Slab	Rate (%)	Income Slab	Rate (%)
Up to 160000	NIL	Up to 180000	NIL
160001 - 500000	10%	180001 – 500000	10%
500001-800000	20%	500001-800000	20%
Above 800000	30%	Above 800000	30%

- b) It has extended for one year additional deduction of Rs. 20,000/- allowed on investment in long term Infrastructure Bonds over and above the ceiling deduction up to Rs. 1,00,000/-.
- c) Special benefits for senior citizens are given. Exemption limit enhanced from Rs. 2,40,000/- to Rs. 2,50,000/- and qualifying age reduced from 65 years to 60 years. One more category of very senior citizens, 80 years and above is created with exemption limit of RS. 5,00,000/-

These benefits are likely to boost the consumption levels and the additional deduction of Rs. 20,000/- for Infrastructure bonds would lead to additional savings and attract investment in Infrastructure.

Other Proposals for Development of Textiles:

The various other allocations for Textiles in the budget is summarised below:

(Rs. In Crores)

Sr No	Proposal	2011-12	2010-11	Remarks
1	TUFs Interest Subsidy			This would help in clearing the outstanding subsidy and also in timely reimbursement of existing claims
	a) Region other than North Eastern Region & Sikkim	2980.00	2785.18	
	b) North Eastern Region & Sikkim	120.00	132.50	
		3000.00	2917.68	
2	Scheme for Handloom Industry			This would benefit the growth of small and medium Textile players in line with the Government objective of inclusive growth.
	a) Region other than North Eastern Region & Sikkim	431.61	497.86	
	b) North Eastern Region & Sikkim	80.00	106.00	
		511.61	603.86	
3	Scheme for Handicraft Industry			
	a) Region other than North Eastern Region & Sikkim	290.26	265.17	
	b) North Eastern Region & Sikkim	60.00	66.00	
		350.26	331.17	

Sr No	Proposal	2011-12	2010-11	Remarks
4	Scheme for Sericulture			This would benefit the growth of small and medium Textile players in line with the Government objective of inclusive growth.
	a) Region other than North Eastern Region & Sikkim	430.76	454.60	
	b) North Eastern Region & Sikkim	90.00	70.00	
	520.76	524.60		
5	Scheme for Wool Industry	14.00	16.50	
6	Scheme for Jute Industry			
	a) Region other than North Eastern Region & Sikkim	87.02	77.15	
	b) North Eastern Region & Sikkim	10.00	8.00	
	c) Payment against Cess collections	46.51	46.51	
	143.53	131.66		
7	Scheme for Powerloom	20.94	20.80	
8	Development of Mega clusters	85.50	62.62	
9	Scheme for Integrated Textile Parks	297.00	182.00	
10	Non Plan loans to NTC and other public enterprises	57.57	209.47	
11	Support to Cotton Corporation of India for cotton procurement under price support	200.00	1233.03	
12	Grant to National Institute of Fashion Technology	167.00	108.00	
13	Assistance to Textile Committee and Textile Commissioner	43.01	41.84	
14	Cotton Technology Mission	0.00	80.93	
15	Other Scheme for Textiles			
	a) Region other than North Eastern Region & Sikkim	204.57	214.69	
	b) North Eastern Region & Sikkim	140.00	90.00	
	344.57	304.69		
	Grand Total	5855.57	6768.85	

Implication of Budget on Alok Industries Ltd.

Alok's operates in the following textile segments:

Segments	Fibre base	% Share in Business (FY 2010)
Cotton Spinning	Cotton	7.59%
Home Textiles (Sheet sets / Towels)	Cotton	16.41%
Apparel Fabrics (Woven & Knits)	Cotton	45.07%
Garments (Woven & Knits)	Cotton	3.26%
POY / Texturised Yarn	Polyester	27.67%
Total		100.00%

The effects of the budget proposals on Alok are as under:

INDIRECT TAXES

i) Effect of Excise Duty:

The cotton goods which were under concessional central excise duty rate of 4% are now being subject to 5%. However, excise duty on cotton yarn and fabric is optional in nature, i.e. the companies can opt for either zero (exemption route) duty or regular (cenvatable) excise duty. Since, the company has opted for exemption route for its cotton products for the domestic market, there is no impact on the cotton and fabrics. In case of polyester yarn there is no change in the excise duties.

However, excise duty @ 10.30% on domestic readymade garments and made ups would impact on one of Alok's subsidiary, Alok H&A Ltd., which sells branded garments and made ups in the domestic market under its store brand "H&A" and private labels. The retail price of the branded garments and made ups would go up by about 6%.

ii) Effect of Custom Duty: There has been no change in the custom duty rates; hence, there is no impact on us.

iii) Effect of Service Tax: There has been no change in the service tax rates; hence, there is no impact on us.

DIRECT TAXES

i) Minimum Alternative Tax (MAT):

There is a marginal increase in MAT rate from 19.93% to 20% (effective rate including surcharge and education cess), impact of which is not significant.

Other Budget Proposals:

i) Higher allocation for TUFs of Rs. 3000 crores:

Most of Alok's expansions are funded by loans under TUFs. Higher allocation towards TUFs subsidy would expedite the re-imburement of claims under the scheme.

Annexure - I

Budget 2011-12

Excise Duty on Textile Items w.e.f. 01.03.2011

Sr. No.	Item	Excise Duty 2011-12	Excise Duty 2010-11	Remarks
1	PSF / VSF / POY / VFY / Paraxylene	10.30%	10.30%	No change
2	PTA / MEG	10.30%	10.30%	No change
3	NFY / PV	10.30%	10.30%	No change
4	Cotton Yarn (optional,note-2)	5.15%	4.12%	Increased in this Budget
5	Apparels (cotton) (optional,note-2)	5.15%	4.12%	Increased in this Budget
6	Apparels (non cotton)	10.30%	10.30%	No change
7	Woven Fabrics (cotton) (optional,note-2)	5.00%	4.00%	Increased in this Budget
8	Woven Fabric (non cotton)	10.30%	10.30%	No change
9	Knitted Fabrics (cotton) (optional,note-2)	5.00%	4.00%	Increased in this Budget
10	Knitted Fabric (non cotton)	10.30%	10.30%	No change
11	Branded Garments / Made ups	10.30%	-	Introduced in this Budget

Note:

1. The goods which were under concessional central excise duty rate of 4% are now being subject to 5%.
2. Excise duty on cotton yarn and fabric is optional in nature, i.e. the companies can opt for either zero (exemption route) duty or regular (cenvatable) excise duty.
3. Above duties include Education cess of 2% and Higher Education Cess of 1% except in case of fabric (woven and knits).

Abbreviations Used:

PSF – Polyester Staple Fibre
 VSF- Viscose Staple Fibre
 POY- Partially Oriented Yarn
 PTA- Purified Terphthalic Acid
 MEG- Mono Ethylene Glycol
 NFY – Nylon Filament Yarn
 PV – Polyester Viscose

Annexure – II

Budget 2011-12

Custom Duty on Textile Items w.e.f. 01.03.2011

Sr. No.	Item	Customs Duty 2011-12	Customs Duty 2010-11	Remarks
1	PSF / VSF / POY / VFY / Paraxylene	5.15%	5.15%	No change
2	PTA / MEG	5.15%	5.15%	No change
3	NFY / PV	10.30%	10.30%	No change
4	Cotton Yarn	10.30%	10.30%	No change
5	Apparels (cotton and non-cotton)	10.30%	10.30%	No change
6	Woven Fabric (cotton and non-cotton) – Note 4	10.00%	10.00%	No change
7	Knitted Fabric (cotton)-Note 4	10.30%	10.30%	No change
8	Knitted Fabric (non-cotton)-Note 4	10.00%	10.00%	No change
9	a) Normal Textile machinery	7.72%	7.72%	No change
	b) Textile Machinery – 30	5.15%	5.15%	No change
	c) Textile Machinery – 31	5.15%	5.15%	No change

Note:

- 1) Above duties include Education cess of 3%.
- 2) The CVD (Counter Veiling Duty) has been increased from 8% to 10% wherever applicable (man made products).
- 3) All items except fabric attract additional 4% SAD
- 4) Exempt from educational cess

Abbreviations Used:

PSF – Polyester Staple Fibre
 VSF- Viscose Staple Fibre
 POY- Partially Oriented Yarn
 PTA- Purified Terphthalic Acid
 MEG- Mono Ethylene Glycol
 NFY – Nylon Filament Yarn
 PV – Polyester Viscose