MODEL PROJECT REPORTS

ON

READYMADE GARMENTS UNITS

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Model Project Report on setting up of Woven Readymade Garment Unit

I. Background:

India's export performance in Textile Sector in the recent years has been remarkable. The Textile exports have now emerged as the largest gross & net foreign exchange earner for the country.

On dismantling of quota regime under WTO, the international market has been fully opened up since 01.01.2005. This has resulted in fierce competition in the Asian countries especially China, Korea & India to capture the unlimited world market. The Central Government as well as some State Governments offer various incentives for setting up of new textile units with the view to encourage exports of Textiles. The potential in the growth of RMG units in India is tremendous since the present contribution of clothing exports of India constitute only 3.2% out of the world textile clothing exports. China ranks the first place in clothing exports whereas India ranks only the 7th place. The growth of RMG units in India is also facilitated by the Technology Upgradation Fund Scheme (TUFS) of the Government of India wherein 5% interest reimbursement is provided on the capital investment made in the land, building and plant & machinery of the RMG units. The TUFS scheme is in force upto 31.3.2007. Hence this is the best time for venturing new RMG units as the market, Government as well as trends are conducive for the growth of RMG units.

II. Rationale:

The rationale for setting up of RMG units are the following:

1. The apparel industry of India is moving into the trajectory of exponential growth. The 'catalysts' for the accelerated growth are quota phase out in the international market and the retail boom (i.e., mall mania) / growing consumerism in the domestic market.

2. A WTO study suggest that post quota India's share in the US clothing market could rise to 15% by 2008 from around 3.3% in 2003 while its market share in EU is likely to expand from 6% in 2003 to 9 % in 2008. The post quota scenario indicates that Indian apparel exports to US & EU are rising significantly. In fact, in USA market during the period from Jan-July, 2005, the export of apparel from India has increased by 34 % vis-à-vis total apparel increase of 9.48%.

3. India is 2nd most preferred destination for major global retailers due to its strength of vertical (i.e., fibre to apparel) and horizontal (i.e., availability of multiple varieties of fibre, yarn, fabric & apparel) integration, cheaper operational facilities, flexibility of operations and product development initiatives. The major ' buying offices' in India have recorded robust growth in 2004 with the top six buyers reportedly crossing the US$ 100 million mark each. The buying operations of Gap, Wal-Mart, H & M, Target, JC Penny and Tommy Hilfiger are growing substantially. It is estimated that the top 10 buyers already account for approximately 35%

of the total textiles sourced from India. Their purchases are likely to touch US$ 1 bn. each over the next 3-4 years.

4. The success of 'specialty stores' in the global market has also positive implications for India. India has strengths in value added/design oriented moderate size market. India would certainly emerge as a most preferred sourcing base for specialty stores which work on the format of product development and innovation.

5. The sustained and vibrant growth of Indian economy also bodes well for apparel sector. GDP growing at the rate of 7-8%; 250 – 300 million middle class population with high purchasing power; 40 % of the total population in the working age group; super-rich 17 million population, point towards higher consumption of apparel in the indigenous market.

6. Further, the organized retailing which is small as of now (about 2-3 %) is expected to register a growth rate of 30% and above and is expected to be about 10% of the retail market in next 3-4 years. It is estimated that the clothing, textiles & fashion accessories contribute about 39% of organized retail market. Therefore, with growth of organized retailing the consumption of apparel is expected to experience an accelerated growth.

7. The growth of apparel sector has chain reaction on growth process of upstream segments of textile industry (i.e., fibre, yarn fabric and processing). The indication of growth of textile industry including apparel sector are already visible. After registering annual rate of growth of 2-4% during last two decade, fabric production recorded a growth of 8% during 2004-05. The same trend is continuing during this year also. IIP growth rate for the year 2004-05 also indicate that in the manufacturing sector, the textile products (including wearing apparel) registered 2nd highest rate of growth at 19.2 % after capital good industry which recorded a growth of 19.5 %.

The above scenario clearly indicate high growth potential of clothing industry which already contributes significantly to the Indian economy in terms of foreign exchange earnings and employment generation capacity. Thus, strengthening of fundamentals of clothing industry to enable it to optimize the opportunities available in domestic & international market is the need of the hour.

III. Technology Up-gradation Fund Scheme (TUFS):

Considering the felt need to upgrade technology in different segments of the textile industry, Government of India had launched Technology Upgradation Fund Scheme (TUFS) for Textile and Jute Industries, w.e.f. 1.4.1999 for a period of 5 years, i.e. upto 31.03.2004. The period of implementation of TUFS has been extended upto end of the 10th Five Year Plan, i.e. 31.03.2007. The main feature of the scheme is that it provides a reimbursement of 5% point on the interest charged by the lending agency on a project of technology upgradation in conformity with this scheme.

The RMG sector is also one of the identified sector for availing benefit of TUFS. The list of eligible benchmarked machineries for eligibility under TUFS in respect of RMG sector is enclosed as Annexure – I. Almost all the machineries and equipments required for a garment unit is eligible under TUFS.

Apart from the 5% interest reimbursement under TUFS, certain identified processing machines for garments and Effluent Treatment Plant of garment processing units are also eligible for 10% capital subsidy under TUFS.

IV. SITP:

Considering the need of large scale RMG units, GoI had launched the scheme for Apparel Parks for Exports during the year 2001. Subsequently, the scheme for Apparel Parks for Exports has been merged as new scheme called as ‘ Scheme for Integrated Textile Parks (SITP)’ during the year 2005.

The scheme envisages setting up of Integrated Textile Park having atleast 50 units with a total investment of 750 crores. The GoI will grant 40% of the Project cost subject to a ceiling of Rs. 40 crores for the investments made in the land, building for common facilities, common infrastructure and factory buildings of the units in the Park. The scheme is implemented by MoT through an SPV consisting of representatives from the Industrial Associations / groups and other stake holders.

V. About the Projects:

This project report envisages the feasibility of setting up of RMG units of various capacities viz., 50, 100, 150 & 300 machines. The intended location of this project are at the industrial estates located in and around Chennai. There are full fledged industrial estates promoted by Small Industries Development Corporation (SIDCO), a subsidiary of Government of Tamil Nadu. These industrial estates have all the facilities of water supply, drainage, electricity, transport as well as ancillary facilities. These RMG units of size 150 machines & 300 machines can also be part of Integrated Textile Parks formed under SITP of GoI.

An RMG unit having a capacity of 300 machines will also have processing facility of the garments, mainly enzyme finish, soda finish, stonewash finish, etc. RMG units of lesser capacities, i.e. 50, 100 & 150 will be without processing facilities as it is not viable to have processing facilities for small / medium size RMG units. All these units have been proposed to be engaged in the own production of garments except the units having 50 machines. Unit having 50 machines have been proposed to undertake production of job-work basis since it is not viable to go for own production.

Each of the model project report consists of details, viz., project cost estimates of land, building, plant & machinery, raw material requirement, working capital requirement, means of finance, power cost, maintenance cost, insurance, salaries & wages, depreciation, expenditure statement, profit statement, break even analysis, repayment schedule etc.

VI. CONCLUSION:

It is inferred from the enclosed model project reports that all the above projects are viable, though the level of profit and DSCR varies. A comparative statement of the various performance indicators is as under:

S. No.	Performance indicators	50 stitching m/c's Jobwork basis	100 stitching m/c's own production	150 stitching m/c's own production	300 stitching m/c's own production with processing
1.	Project Cost	Rs.40.29 lakhs	Rs.206.45 lakhs	Rs.346.56 lakhs	Rs.739.89 lakhs
2.	Land & Building	Rental	Own	Own	Own
3	Cost of Plant & machinery (lakhs)	Rs. 22.30	Rs.40.00	Rs.94.85	Rs.189.70
4	Employment	92	182	328	636
5.	Profit / piece	Rs.10.07	Rs.11.26	Rs.11.16	Rs.13.73
6.	DSCR				
	Min	2.48	1.36	1.21	1.37
	Max	8.80	4.99	4.48	4.86
	Avg.	4.06	3.28	2.95	3.25
7.	BEP	69.07%	67.98%	72.47%	69.50%
8.	Cash BEP	59.91%	58.97%	63.89%	60.22%
9	Internal Rate of Return (IRR)	35%	39%	38%	35%
10	Payback Period	3 yrs, 2 months	6 yrs, 6 months	6yrs, 1month	5 yrs, 6 months

From the above statement, it is very clear that RMG unit can be of any size, i.e. from tiny unit, SSI unit, medium scale unit as well as large unit. In all the scales of sizes, the RMG unit is viable, the main reason being the low cost of plant and machinery. One of the major assumptions in these projects is the assured marketability/ salebility of the garments. For ensuring assured marketability it is essential that the unit should have firm marketing tie up either with overseas importer or merchant exporter. Though the break-even points in all the above cases is less than 70%, which assures a comfortable pattern of production, depending on the market variations, it is highly essential to ensure running of these units to the fullest potential. For this purpose, the marketing of garments should be dynamic and the production level should never be less than 80%.

Please click on the next pages for detailed project profiles of above-stated categories.