

PRESS RELEASE
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US tariff relief soothes export sentiment, for now, in a volatile trade environment: ICRA

Outlook on apparel exports restored to Stable while that on cut and polished diamonds stays Negative

Rating agency ICRA highlighted that the downward reset in US tariffs to 18% from the elevated levels seen in 2025 represents a relatively smooth landing for Indian exporters at a time when global trade dynamics remain fluid. Following this development, the labour-intensive export sectors, including textiles, cut and polished diamonds, seafood, and footwear will see improved landed-cost competitiveness. While the sentiment boost is immediate, the translation of this policy development into higher export volumes and margin restoration is likely to unfold with a lag, depending on how quickly contracts with US buyers are refreshed and how US demand patterns evolve, ICRA added. The rating agency has restored its outlook on apparel exports to Stable while that on cut and polished diamonds stays Negative.

The reciprocal tariffs on India have now been lowered to 18% from 25% earlier as per the recently issued US-India joint statement. This apart, as per the joint statement, subject to the conclusion of the Interim Agreement, reciprocal tariffs imposed by the US on select Indian goods, including generic pharmaceuticals, gems and diamonds, and aircraft parts, would also be removed. Further, the additional *ad valorem* duty of 25% on Indian imports (introduced in August 2025 in lieu of Russian oil imports by India) now stands eliminated as per the Executive Order issued by the US President.

Jitin Makkar, Senior Vice President and Group Head – Corporate Ratings, ICRA Limited, said: “*The sharp increase in US tariffs last year had been particularly debilitating for export-oriented companies in sectors such as textiles, cut and polished diamonds, and leather and leather products. Apparel exporters, for instance, saw their margins compress by nearly 200 basis points over the past couple of quarters as they were compelled to extend discounts to US buyers to retain volume share. Likewise, polished diamond exporters sought to minimise tariff-related frictions by reorganising their supply chains to reach US buyers while compromising their working capital cycles, with shipment timelines lengthening by around 30 days. Against this backdrop, the lowering of US tariffs, as a prelude to the formal signing of the US-India trade agreement in due course, as also the anticipated implementation of the India-EU free trade agreement next year, besides other bilateral trade pacts, augur well for a gradual strengthening of India’s manufacturing export growth over the medium term.*”

Based on this latest development, ICRA has revised the outlook on the **Indian Apparel (exports)** sector to **Stable** from **Negative**. India’s apparel exports stood at USD 16 billion in FY2025, with the US accounting for around one-third of this value, underscoring the primacy of the US market, not only because it is a large contributor to the Indian apparel exporters’ revenue pie, but also because it is generally more profitable than other markets. The outlook had been revised to *Negative* in September 2025, when ICRA had projected a decline in India’s apparel exports, in INR terms, by 6-9% in FY2026 and a further decline of 4-6% in FY2027, had the elevated tariff regime persisted. With US tariffs now lowered, apparel export revenues are still expected to contract in FY2026, although the extent of decline is now forecast at a more moderate 3-5%. Further, revenues are projected to rebound in FY2027, registering a growth of 8-11%. Concurrently, operating profit margins (OPM), which are expected to compress by about 200 bps to around 7.7% in FY2026, would likely recover to around 9.5% in FY2027, prompting a restoration of the *Stable* outlook.

In comparison, ICRA continues to maintain a **Negative** outlook on the **cut and polished diamonds** sector, notwithstanding the prospect of tariff removal on India's diamond exports once the Interim Agreement between Indian and the US is concluded. The sector's sheen has been taken away by lab grown diamonds that have gained consumer acceptability, harming both volumes as well as prices of natural diamonds. India's diamond exports had touched a peak of USD 24 billion in FY2022, but since then demand has crashed, with FY2026 exports projected by ICRA at around USD 12 billion. Alongside volume contraction, natural diamonds have also faced pricing pressures with average realisation per carat ebbing to around USD 725 in 9M FY2026, sliding at a 7% CAGR over the past three years. That said, ICRA expects India's natural diamond exports to expand by 6-8% in FY2027, supported by the anticipated removal of US tariffs, a bottoming-out of prices, the introduction of BIS labelling aimed at distinguishing natural diamonds from lab grown ones, and a pick-up in restocking momentum as both categories find a more stable equilibrium on retailer shelves. Despite the rise, India's overall diamond exports in FY2027 will remain substantially lower than the FY2022 peak, because of which earnings will remain curtailed, thereby necessitating a continuation of the *Negative* outlook.

While the US tariff reduction offers a meaningful near-term relief to exporters, ICRA expects that over the longer term, geographical diversification will emerge as a key risk mitigation strategy that corporate India will adopt. For exporters, this would entail strengthening efforts to build a geographically more diversified customer footprint, even if it involves parting with some margins in the near term. In addition, investing in overseas manufacturing facilities or partnering with local entities to establish a globally diversified production base would likely gain traction, as a hedge against an increasingly volatile and geopolitically-influenced trade environment.

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Media Contacts:	
Naznin Prodhani Vice President, Head - Group Corporate Communications & Media Relations ICRA Limited Tel: + (91 124) 4545300, Dir - 4545860 Email: communications@icraindia.com	Saheb Singh Chadda Manager - Media & Communications ICRA Limited Tel: + 91 - 9833669052 Email: communications@icraindia.com

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