PRESS RELEASE
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Revenues of Indian apparel exporters to grow by 9-11% in FY2025: ICRA

- ***Operating margins to contract by 30-50 bps in FY2025 because of rising labour, freight and operating costs***
- ***Capex spends pegged at 5-8% of turnover in FY2025 and FY2026***

ICRA expects the Indian apparel exporters[1] to register a 9-11% revenue expansion in FY2025, aided primarily by the gradual liquidation of retail inventory in the key end markets and a shift in global sourcing to India, a part of the derisking strategy adopted by several customers. This follows a tepid performance in FY2024 when exports were affected because of high retail inventory, sluggish demand from the key end markets, supply chain issues (including the Red Sea crisis) and heightened competition from neighbouring countries. The long-term prospects for Indian apparel exports are favourable, aided by enhanced product acceptance in end markets, evolving consumer trends and a boost from the Government in the form of the production-linked incentive (PLI) scheme, export incentives, the proposed free trade agreement with the UK and the EU, among others. With the revival in demand, ICRA expects the capex spending to increase in FY2025 and FY2026 and may stay in the range of 5-8% of the turnover.

At US$ 9.3 billion (in CY2023), the US and the European Union (EU) region account for over two-thirds of apparel exports from India and remain the preferred destinations. While headwinds persist in certain end markets because of geopolitical tensions and macroeconomic slowdown, there has been a gradual recovery in apparel exports from India in the current year. In H1 FY2025, apparel exports grew by ~9% on a YoY basis to US$ 7.5 billion on the back of a gradual liquidation of inventory, a shift in global sourcing to India as a part of derisking strategy adopted by several customers and a higher order booking for the upcoming spring/summer.

Commenting on this, **Srikumar Krishnamurthy, Senior Vice President & Co-Group Head – Corporate Ratings, ICRA** said: “After a marginal decline (down 2%) in FY2024, Indian apparel exporters are estimated to report a 9-11% revenue growth in FY2025, benefitting from derisking strategy adopted by various customers and replenishment of retail inventory in key end markets, especially the US and the EU regions. Nevertheless, challenges around demand uncertainty persist in a few key markets amid a subdued macroeconomic environment, geopolitical issues, etc. Despite the revenue growth, associated operating leverage benefits and softer raw material prices, the industry’s operating margins are expected to contract by 30-50 bps on a YoY basis in FY2025 with increasing labour costs, freight costs and rise in other operating expenses.”

Recent geo-political tensions in Bangladesh could result in capacity additions outside the country, including India. Nevertheless, the availability of labour at competitive costs and preferential duty access, given its least developed country status for another two years on exports to the US and the EU help Bangladesh to remain competitive against most other developing countries. The interest coverage ratios of ICRA’s sample set of companies are likely to moderate marginally to 5.0-5.5 times in FY2025 and FY2026 from 5.8 times in FY2023 due to inorganic expansions and large debt-funded capex expected. The Total Debt/ OPBDITA is expected to be in the range of 2.0-2.4 times in FY2025 and FY2026.

“Apart from the benefits to be derived from the fresh capacity additions under the PLI scheme, PM Mega Integrated Textile Region and Apparel scheme is expected to strengthen India’s presence in the global apparel trade by providing scale benefits and strengthening the country’s presence in man-made fibre value chain. ICRA anticipates

[1] *Represented by ICRA’s sample set of 15 apparel exporting companies and accounting for ~15% of total Indian apparel exports*

the culmination of these schemes to enable Indian apparel exporters to increase their share of pie in the global apparel trade," **Srikumar added**.

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