

**PRESS RELEASE**  
**September 8, 2025**

**Apparel exports to shrink by 6-9% in FY2026; Outlook revised to Negative on tariff woes: ICRA**

- Lower exports and pressure on pricing to contract industry operating margins by 200-300 bps in FY2026; impact could be steeper for entities with higher concentration on the US market

ICRA has revised the outlook on the Indian Apparel (exports) industry to Negative from Stable, following the upward revision in tariff rates by the US and its consequent adverse impact on India's overall apparel exports. If the recently imposed tariffs continue, ICRA expects the revenues of apparel exporters to decline by 6-9% in FY2026, in spite of the implementation of the Free Trade Agreement (FTA) with the UK and diversion of supplies to other geographies. Consequently, ICRA forecasts their operating profit margins to compress to around 7.5% in FY2026 from 10% in FY2025, on relatively weaker operating performance in H2 FY2026, caused by contraction in volumes leading to decline in operational efficiencies. With lower earnings and higher working capital dependence, the credit metrics are also expected to moderate.

Apparel exports (in constant currency terms) have been largely flat in the past five years due to subdued demand in some of the key end-markets and shift in sourcing to Bangladesh and Vietnam, collectively leading to a lower offtake by customers in the United Kingdom (UK), the United Arab Emirates etc. However, apparel exports to the US, which represent a third of India's exports, grew by 4.8% during this period as Indian exporters focused on volume led US market. With the increase in tariff rates by 50%, over and above the baseline rates, with effect from August 27, 2025, the competitiveness of Indian apparel exporters will come under pressure and thus impact their revenue growth prospects and margins. While the preponement of shipments to the US, ahead of the additional tariff imposition, has lifted apparel exports in certain product categories in the recent months, exports in H2 FY2026 will likely be weak, should the prevailing scenario continue.

**Srikumar K, Senior Vice President and Co-group Head – Corporate Ratings, ICRA Limited**, said: *"The imposition of steep tariffs and penalties by the US is a material setback for the domestic apparel exporters with a high dependence on the US market. New order inflows are likely to be hit and margin pressures are imminent, even if some part of the tariff increase burden is passed on to the US importers. Assuming the new tariffs continue, ICRA expects the revenues of apparel exporters to shrink by 6-9% in FY2026 with consequent impact on operating profit margins (forecast to moderate by 200-300 bps) and credit metrics. The impact could, however, be less severe for exporters having a manufacturing base outside of India, in countries that benefit from relatively lower tariffs, who will have the flexibility to divert production to those countries. An early conclusion of the bilateral trade agreement with the US or a reduction in tariffs levied by the US could minimise disruption."*

India's share in US apparel imports is low at around 6%. Indian exporters are expected to exert themselves to preserve their business shares, as losing it can make a subsequent recovery challenging. Accordingly, profitability is set to come under pressure as additional discounts would need to be offered, even as there is currently an external relief from a weakening USD and a limited-period duty exemption on cotton imports. Nonetheless, export volume decline seems likely and ICRA forecasts apparel exporters' revenues to decline by 6-9% in FY2026.

The degree of the impact will differ, depending on the product categories. For certain product specifications and price points, an immediate switchover of US orders to the lower-tariffed countries may not be amenable, both because of manufacturing capability differences and the lead time in setting up incremental capacities. Further,

countries that compete with India may also be circumspect in investing in new capacities to supply to the US, in an environment where a tariff-based competitive advantage may not last.

Preponement of shipments in H1 FY2026 cushions the revenue impact for the full-year FY2026. Further, implementation of the FTA with the UK and diversion of supplies to other geographies is expected to support revenues in FY2027. The operating margins of exporters are expected to moderate to around 7.5% in FY2026 (from 10% in FY2025), on relatively weaker operating performance in H2 FY2026, caused by contraction in volumes leading to decline in operational efficiencies.

Indian cotton yarn prices had remained flat in FY2025 on a YoY basis and are likely to moderate to an extent with import duty exemption on cotton imports till December 2025. With a moderate increase in debt towards ongoing capital expenditure in several companies (which is nearing completion) and lower earnings, coverage ratios are projected to moderate. Decline in operating margins will be primarily attributed to discounts provided and a reduction in the operating scale. Consequently, apparel-exporting companies are likely to report a lower interest cover of 3.0-3.2 times and higher total debt/ OPBDITA of 3.2-3.4 times in FY2026 and FY2027, respectively (compared to 4.6 times and 2.3 times respectively, in FY2025).

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