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India's exporters face rising US tariffs: Credit risks mount amid shifting trade dynamics

India's export sector is navigating a turbulent trade environment as recent tariff hikes by the United States (US) threaten to reshape long-standing business equations. While large exporters, for now, appear to have the financial strength to absorb the shock, the durability of their resilience remains uncertain, especially if the elevated tariff regime persists.

The latest round of US tariffs—effective August 27, 2025—has added a punitive 25% duty on select Indian goods, pushing the effective tariff burden to around 60-70% in some categories when combined with pre-existing levies. This escalation places Indian exporters at a disadvantage compared to competitors in East and Southeast Asia, who face lower tariff rates. The risk of substitution is real and rising.

Indian exporters had weathered the earlier round of tariff action, that is, the 25% reciprocal tariffs imposed by the US that came into effect on August 7, 2025. Many large firms in ICRA's portfolio successfully passed on the cost or restructured supply chains to maintain profitability. However, the latest hike is more severe and could disrupt business models if it becomes a longer-term fixture. From a credit perspective, sustained high tariffs are directionally negative, potentially eroding profitability and weakening credit metrics of exporters that have a materially large dependence on the US market.

The **mid to large-sized textile companies** in ICRA's portfolio, in the apparels, home textiles, and terry towels segments have had mixed experiences over the past few months since the onset of the tariff turbulence. Apparel and terry towel exporters have benefitted from advance buying in 5M FY2026 and now face the possibility of weaker YoY revenue growth in H2 FY2026. In contrast, home textiles segment (where ticket sizes are higher than apparels and terry towels and where the consumer segment has a higher price elasticity) has seen a slowdown in orders from US retailers over the past few months. Although some of the textiles sector entities in ICRA's portfolio saw their revenues slow down and margins contract in Q1 FY2026, their credit profiles continued to draw comfort from their strong balance sheets and liquidity buffers, and in some cases, diversified manufacturing footprints outside India. These attributes are expected to enable them to hold ground with US retailers over the next couple of quarters, even as margins come under pressure. Some Indian exporters are actively exploring new global markets to hedge against US dependency—a strategy that may dilute profitability, given the US remains both a high-volume and high-margin destination.

The situation is more precarious for **cut and polished diamond (CPD) exporters**, who are already grappling with structural headwinds. The rise of lab-grown diamonds and softening discretionary spending in the US have led to double-digit revenue declines for several large CPD firms over the past two years. Their credit ratings during this period have already seen downward revisions. The new tariffs add another layer of stress. Most CPD companies in ICRA's portfolio do not have material long-term borrowings and rely primarily on working capital loans which alleviates financial risk to some extent. Notably, India polishes nearly 90% of the world's diamonds, and exporters are now recalibrating supply chains to minimise the price impact on US consumers. Despite business pressures, liquidity is not yet a chronic concern, but since fundamentals are weakening, possibility of further negative rating actions cannot be ruled out.

In contrast, **auto component manufacturers** appear relatively insulated. Their products typically involve long development lead times and validation cycles, making substitution less feasible. Many have ex-works contractual arrangements with US buyers, who are currently absorbing the tariff impact. However, the primary risk lies in volume demand: higher prices could dampen vehicle sales in the US, indirectly affecting Indian suppliers. Whether buyers will continue to absorb costs or seek renegotiations remains a key monitorable.

Other vulnerable segments include **footwear and shrimp exporters**, both of which face intense price competition from other nations.

As the risk-environment evolves, there are some mitigating factors. Several investment grade entities in the aforesaid sectors in ICRA's portfolio possess strong balance sheets, liquidity buffers, or enjoy parental support, enabling them to withstand near-term revenue declines and margin compression. The Indian rupee's recent depreciation against the US dollar, also partially offsets the cost impact. Additionally, the government has taken steps to ease input costs—such as annulling import duties on cotton—which could provide relief to textile exporters. More such measures are reportedly under consideration.

While these cushions should help most mid-to-large-sized exporters maintain their ratings; however, if the punitive tariff regime persists and exporters are unable to adapt their business models swiftly, a reassessment of credit profiles may become necessary. The coming quarters will be critical as exporters aim to balance short-term margin pressures with long-term strategic shifts, while policymakers engage in trade diplomacy or offer targeted relief. The resilience of India's export engine is being tested—not just by tariffs, but by its ability to evolve.

This document provides a broad overview of the current credit risk landscape for sectors with significant exposure to the US market. ICRA will be releasing entity-specific commentary in the coming days for its rated entities to help lenders, investors, and other market participants better understand the particularities at an individual entity level.

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