

INDIAN APPAREL & FABRIC SECTOR

India apparel exports: Opportunity
amid trade and geopolitical cross-
currents

MARCH 2026



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One of the key trends shaping the global apparel trade is the supply chain realignment. Over the past decade, the US and the EU brands shifted sourcing from China to Bangladesh and Vietnam for cost advantages. Post Covid, a China+1 strategy positioned India as an alternative, but higher US tariffs in CY2025 eroded its competitiveness.

Recent US tariff cuts and signing of Free Trade Agreement (FTA) with the EU and UK have revived optimism, improving India's outlook for exporters.



- Global apparel exports, estimated at around \$550 billion, have been growing at moderate levels of 3.3% in the last five years ended CY2025. The EU, the US, Japan and the UK are the key demand centres, and these regions account for around two-third of the global consumption. While the demand is driven by higher disposable income and strong fashion trends in these regions, it is also vulnerable to any large impact of economic cycles, trade policies and geopolitical developments in these countries.



- One of the key trends shaping the global apparel trade is the supply chain realignment. Countries like China, Bangladesh, and Vietnam meet over 45% of the global apparel demand. China's share has been reducing in the last one decade and Bangladesh and Vietnam have been the key beneficiaries.



- India's apparel exports stood at USD 16.3 billion in CY2025 and contribute to less than 4% of the global trade. Post Covid, India was becoming one of the preferred sourcing options, given its strengths like integrated textile value chains, supportive policy reforms and a strong raw material base. However, the imposition of elevated tariffs (50%) by the US, a country that accounts for one-third of India's exports, halted the progress and pushed Indian exporters into making the uncomfortable choice between sustaining or growing volumes versus maintaining margins, not both.



- The recent interventions by US courts in February 2026 and the subsequent reduction in tariff rates to around 10% (from the peak levels of 50%) has revived the optimism in the sector. This, coupled with the signing of FTA with the EU and the UK (which collectively represent around 30% of exports from India), augurs well for India's apparel exports over the medium to long term.



- **Outlook on Indian apparel exports revised to Stable from Negative.** In September 2025, ICRA had revised the outlook to Negative, following the imposition of punitive tariff by the US, which diminished India's competitiveness compared to other Asian countries. With the reduction in overall tariffs and expected opportunities from the FTA signings, the outlook has been reinstated to Stable. With the tariff reduction, ICRA expects that the revenues of apparel exporters to increase by 8-11% (YoY) in FY2027, and the margins are likely to recover by approximately 200 basis points to around 9.5% in FY2027. That said, escalations in recent conflict in West Asia and non-extension of export incentives could pose a downside risk to ICRA's estimates on revenues and margins.

Global apparel exports - The big picture

Exhibit 1: Trend in global apparel exports (\$ billion)

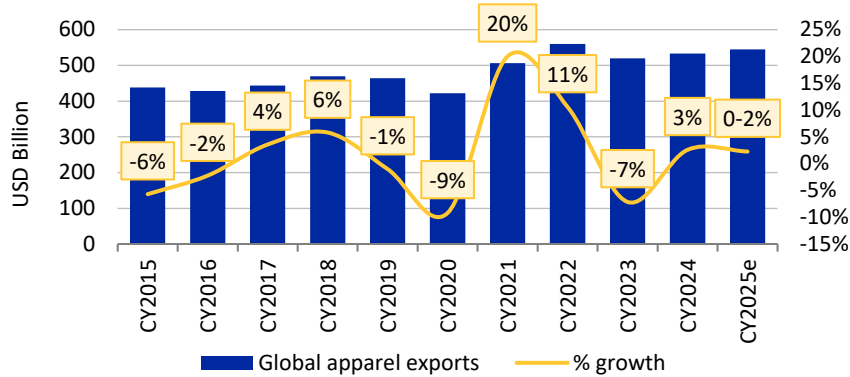
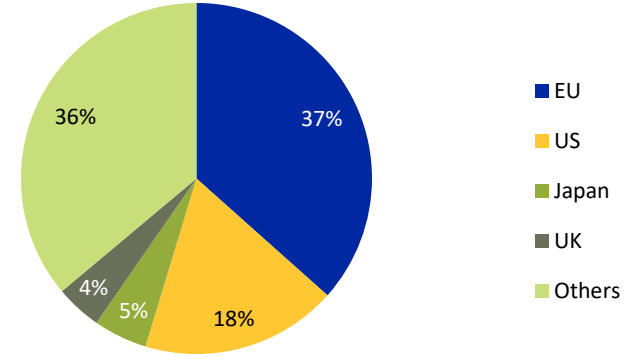


Exhibit 2: Global apparel imports - Geographical mix (CY2025 E)



- The global apparel market size is estimated at around \$1.7 trillion, and the industry has seen a muted consumption growth of around 2% in the last five years ended CY2025 owing to a relatively weak consumer demand and inflationary pressures. The post-pandemic recovery in apparel exports was strong. However, the growth has been slower in the last two years, reflecting weak demand sentiments amid challenging macro conditions. Going forward, while clothing demand and appeal for fashion wear will remain the key drivers, a meaningful recovery in discretionary spending across key markets will be critical for a healthy and sustained growth.
- Apparel exports, which represent around 30% of the global apparel market size, witnessed a marginal growth of 3.3% in the last five years ended CY2025 with the European Union (EU), the US, Japan and the UK being the key demand centres. These regions collectively account for around two-third of the global consumption. The demand is driven by high disposable income and strong fashion trends in these countries, but it is also vulnerable to any large impact of economic cycles, trade policies and geopolitical developments in these regions.

Supply chain realignment - Bangladesh and Vietnam were key beneficiaries

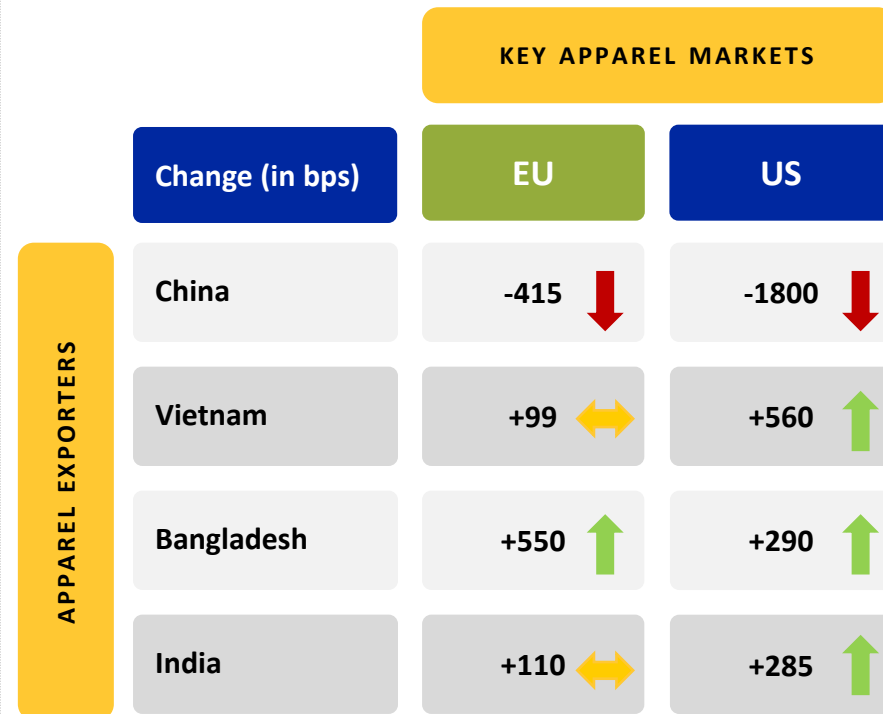
Exhibit 3: Share of key exporters in global apparel trade (%)

Key exporters	CY2015	CY2019	CY2025e
China	37%	30%	29%
Bangladesh	6%	7%	10%
Vietnam	5%	6%	7%
Italy	4%	5%	5%
Germany	4%	5%	5%
Turkey	3%	3%	3%
India	4%	3%	3%

- One of the key trends shaping the global apparel trade is the supply chain realignment. China, Bangladesh, and Vietnam are the key exporting nations meeting over 45% of the global apparel demand. China contributed to around 30% of the global exports in CY2025, with its share having reduced in the past one decade.
- This is because of the diversification initiatives by the vendors in the EU and the US amid concerns of rising operating costs and trade war issues in China, apart from rising restrictions on the use of Xinjiang cotton in apparel and made-ups.
- The key beneficiaries of the supply chain realignment were Bangladesh and Vietnam, given their cost competitiveness and favourable trade terms with the EU and the US.
- India's share in the overall exports have fallen marginally over the last 10 years, reflecting a missed opportunity. Nevertheless, its share in critical markets like the US and Australia has grown, supported by inherent positives like integrated textile value chains, supportive policy reforms and a strong raw material base.

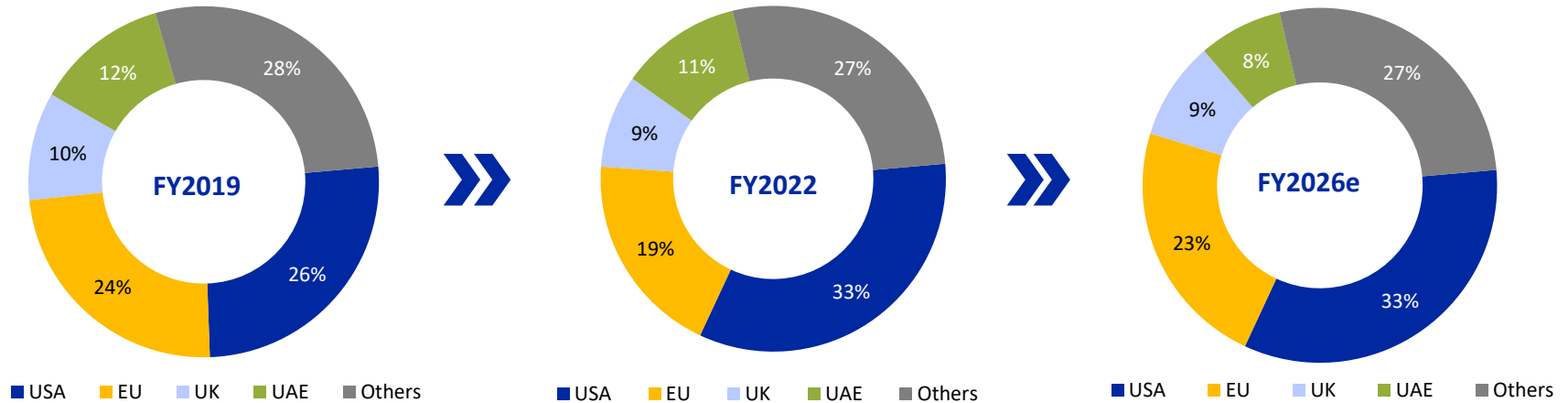
Source: UN Comtrade, ICRA Research

Exhibit 4: Movement in market share for key exporters between CY2018 and H1 CY2025



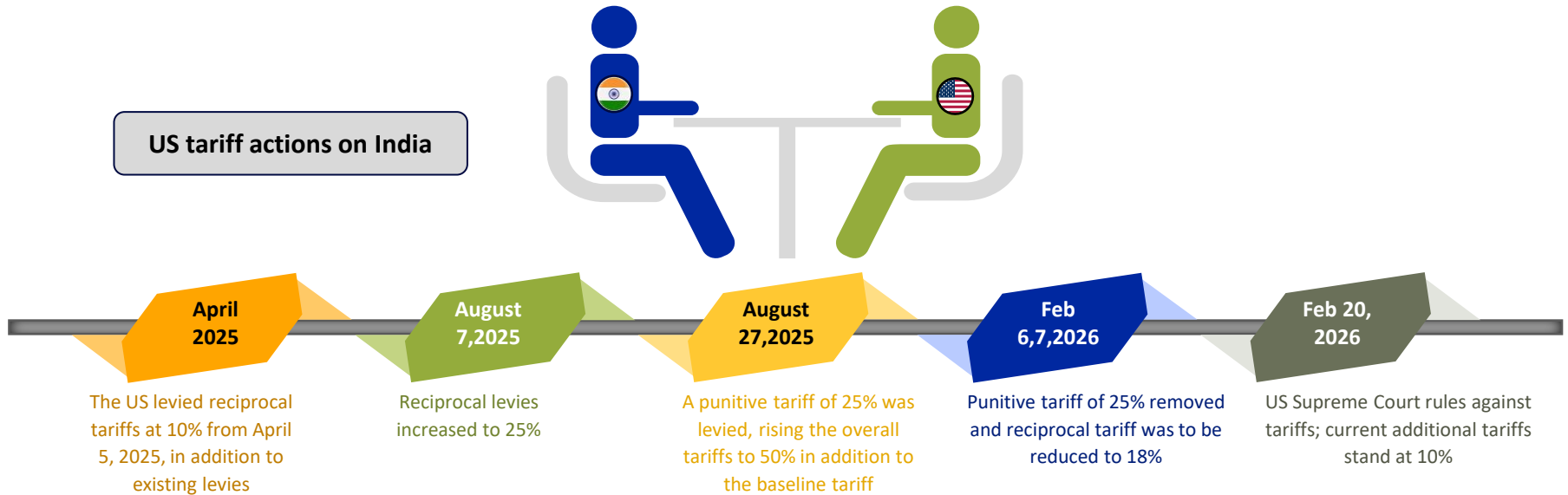
US and EU - Major markets for Indian apparel exporters

Exhibit 5: India's apparel exports – region-wise share



- The US and European markets (including EU and UK) are the major markets for Indian apparel exporters.
- Collectively, these two regions account for nearly three-fourth of the overall exports.

US tariffs - A year of policy swings for apparel trade



- Prior to the US tariff levies, the global vendor diversification initiative was expected to play out well for Indian apparel exporters. Enquiries from customers in the US and the EU grew stronger amid the geopolitical concerns in some competing nations, prompting many domestic players to enhance their capacities. While India was widely seen as the next global sourcing hub, the US tariffs on India (and other geographies) played a spoilsport. Tariffs (including reciprocal and punitive) at 50% was considerably higher than all the competing nations.
- Given the steep rise in tariffs, exporters were at a disadvantageous position and were constrained to offer discounts in the range of 5-15% between September 2025 and January 2026. There were concerns on order deferrals as well for the upcoming season. However, a downward reset in tariffs to 10% during February 2026 supports a revival of India apparel exporters.

US tariffs - How does the new rate compare with competing nations?

Exhibit 6: Share of key apparel exporters in US apparel trade and US tariff imposed

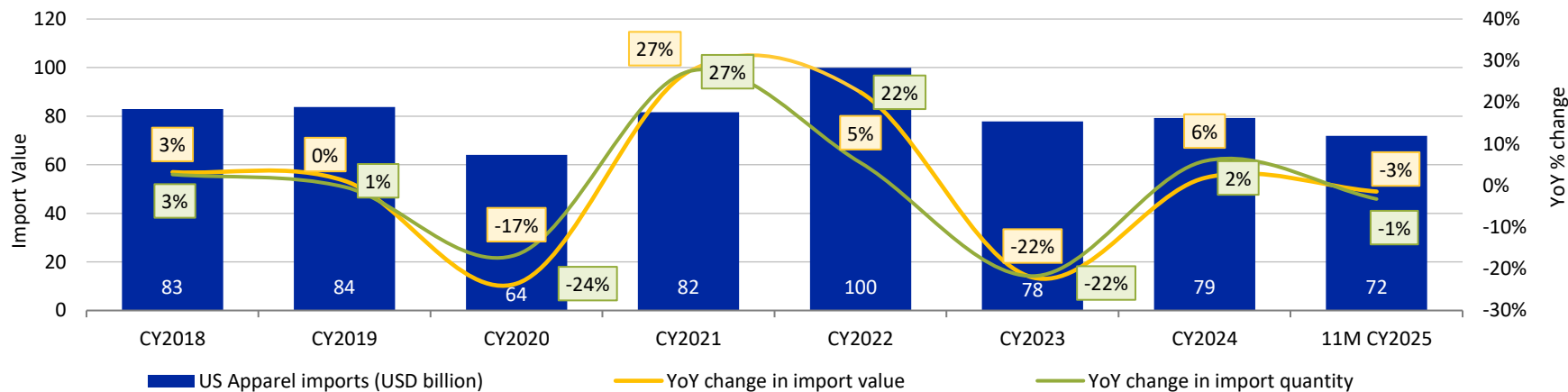
Competing Nation	Share in US apparel trade (H1 CY2025)	US tariffs on India		US tariff on competing nations (prior to Supreme Court judgment)	Difference in total tariff vis-à-vis India	
		Earlier*	Now	Nation (%)	Earlier	Now
Vietnam	19%	50%	10%	20%	-30%	0%
China	15%	50%	10%	30%	-20%	0%
Bangladesh	9%	50%	10%	20%	-30%	0%
Indonesia	6%	50%	10%	19%	-31%	0%
Cambodia	5%	50%	10%	19%	-31%	0%
India	7%	50%	10%	NA	NA	NA

- There had been a moderate shift in US sourcing pattern from India, post the total tariff levy of 50%. Apparel exporters in India had to offer steep discounts to retain US orders and some portion of the orders also got shifted to other geographies. The discounts had compressed the operating profit margins of Indian apparel exporters by nearly 200 basis points in the last couple of quarters.
- The new rates at 10% are favourable for Indian exporters and will help them regain the competitive position. While the US tariff reduction offers a meaningful near-term relief to exporters, ICRA expects corporate India to adopt geographical diversification as a key risk mitigation strategy in the long term. Exporters would look to strengthen their efforts to build a more geographically diversified customer footprint, even if it involves parting with some margins in the near term. In addition, investing in overseas manufacturing facilities or partnering local entities to establish a globally diversified production base is likely to gain traction as a hedge against an increasingly volatile and geopolitically-influenced trade environment.

Source: Department of Commerce (Government of India), ICRA Research; *including additional 25% tariff

US apparel imports - Fall in sentiments post tariffs affected consumption levels

Exhibit 7: Trend in apparel imports of US

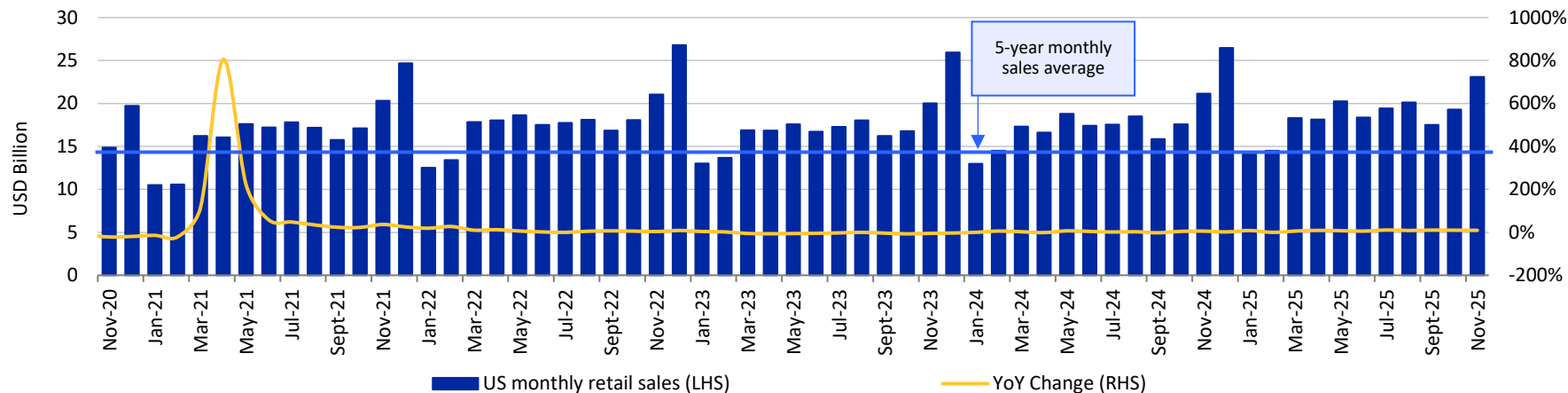


- Following a 6% YoY growth in volume terms in CY2024, US apparel imports witnessed some moderation in CY2025. During this period, consumption was affected by the higher tariff on consumer sentiments and general inflation.
- Bangladesh and Vietnam were the key gainers of favourable US tariffs with their share in US apparel imports growing to 21% and 11%, respectively, in 11M CY2025 (against 19% and 9%, respectively, in CY2024). The share of imports from China reduced to 14% in 11M CY2025 from 21% in CY2024.
- India's share in US apparel imports was range-bound (around 6% in 11M CY2025). As regaining customers following a long product and plant validation cycle is a challenge, most of the apparel exporters continued to be associated with the vendors and met the committed orders, though at revised pricing terms. During this period, certain shipments were preponed prior to the punitive tariff levy. Overall, the tariffs had relatively minimal impact on exports (in volume and value terms).

Source: Intracen, census.gov, CMIE, ICRA Research

US clothing retail sales - Inflationary pressures pull down CY2025 volumes

Exhibit 8: Monthly trend in US retail sales for clothing



- CY2024 started on a normal note after retailers started to restock their inventory. Healthy festive sales resulted in lower-than-average inventory levels in the second half of the year. In H1 CY2025, retailers started to restock their inventory for festival sales and certain shipments were preponed due to tariff-related uncertainties.
- A slowdown in US retailer restocking was seen in H2 CY2025 because of the higher tariffs and its impact on purchasing power of the end consumers. Given the fall in inventory levels at the retailers' end and the recent reduction in tariff rates, restocking is expected to happen over the next 12 months, thus auguring well for the apparel exporters.

Source: United States Census Bureau, ICRA Research

Exhibit 9: India's monthly apparel exports and YoY growth

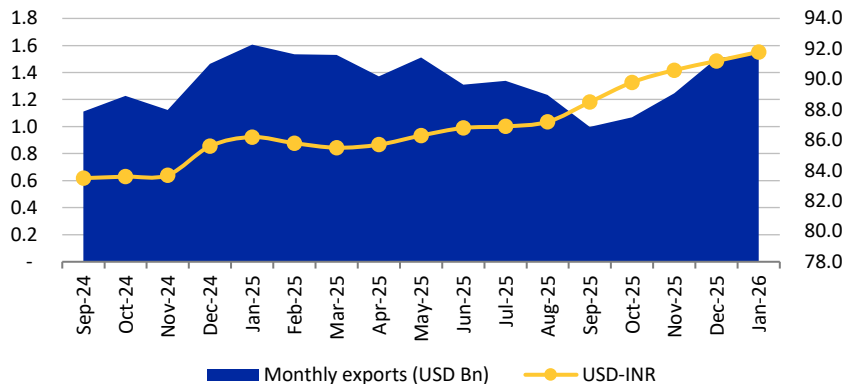
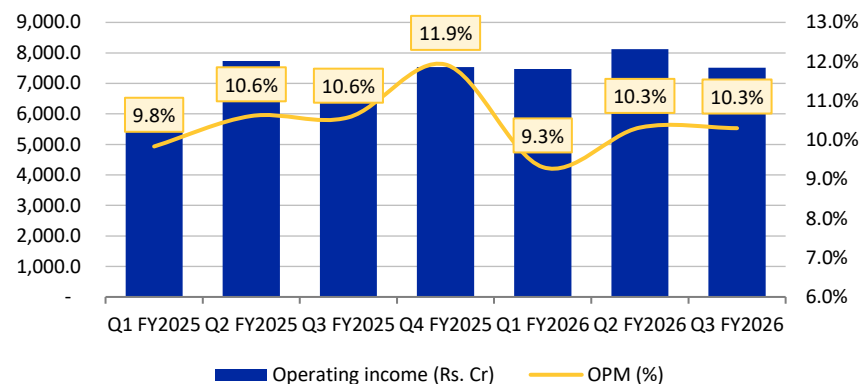


Exhibit 10: Trend in profit margins of apparel exporters



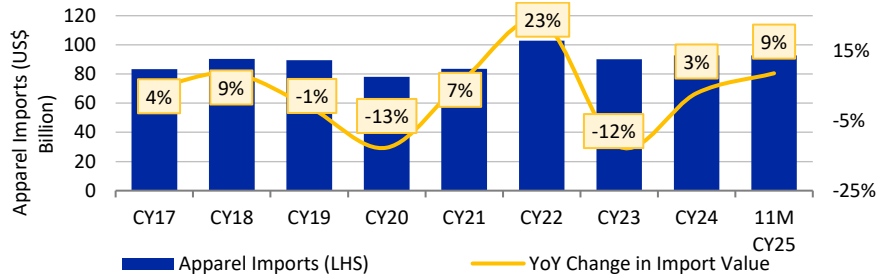
- Following the announcement of elevated tariffs, Indian apparels exports were expected to be significantly impacted as the US is a key export market and competing nations like Bangladesh and Vietnam benefited from favourable tariffs and pricing. In the initial stage, shipments which were scheduled for dispatch were largely done either at pre-agreed terms or with the end customers bearing the additional tariff of 25%. But, after the announcement of the punitive tariffs, the exports slumped in September and October 2025.
- The exports recovered subsequently as the exporters decided to diversify, apart from engaging with US customers at revised pricing terms. Given the challenges in regaining customers and the long vendor validation cycle, and with hopes of an early resolution to tariffs, the players continued to export apparels, though at discounts of 5-12.5%. **This impacted the industry's operating profit margins by 40 bps YoY in 9M FY2026 and the interest coverage ratio (down to 5.2x in 9M FY2026 from 5.4x in 9M FY2025); the impact was partly buttressed by a depreciating rupee.**

Exhibit 11: Tariff impact on margins and ICR

Period	OPM (%)	Interest cov. (x)
9M FY2026	10.0%	5.2
9M FY2025	10.4%	5.4

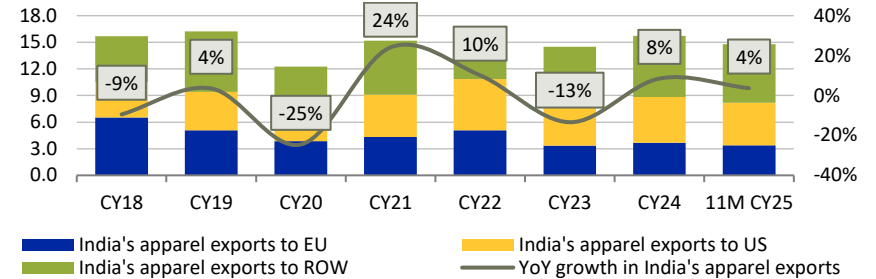
Source: Ace Equity, RBI, ICRA Research. Note: Based on ICRA's sample of 13 listed companies involved in apparel exports;

Exhibit 12: Apparel imports by EU (excluding trade within EU)



Source: UN Comtrade, OTEXA, Eurostat

Exhibit 13: India's apparel exports (in \$ bn) to US, EU and rest of the world (ROW)



Source: ICRA Research, Intracen, UN Comtrade, Eurostat

- Nearly a fourth of the exports from India go to the EU, which were largely flattish in recent years owing to sluggish retail demand, inflationary pressures, vendor diversification etc. The EU's import dependence on India has also been historically low (at less than 5%) with China, Bangladesh, Turkey and Vietnam leading the pack. Factors such as preferential access, lower tariffs etc in these countries have kept Indian exporters at a disadvantageous position.
- The signing of the India-EU deal in January 2026 (which brings down the duty rates to nil) is structurally positive for the Indian textile industry, within which apparels and home textiles are the key beneficiaries. This deal places Indian exports on a par with competing nations, thus providing a level-playing field. Upon an effective implementation, it is expected to boost the competitiveness of exporters and can attract long-term investments in the sector.

Benefits of India-EU trade deal signing on apparel segment

Coverage	Zero duty on over 90% of exports of textile products against 8-12% pre-FTA
Potential market	Around \$6-8 billion
Market share	To increase to 6-7% from the current levels of 4%
Margins	To rise by 100-150 bps post implementation; however, for commodities export, the benefits could be minimal

Ongoing conflict to disrupt apparel exports to West Asia; transit delays could exert margin pressures and elongate cash conversion cycle

Exhibit 14: Geography wise Apparel exports mix

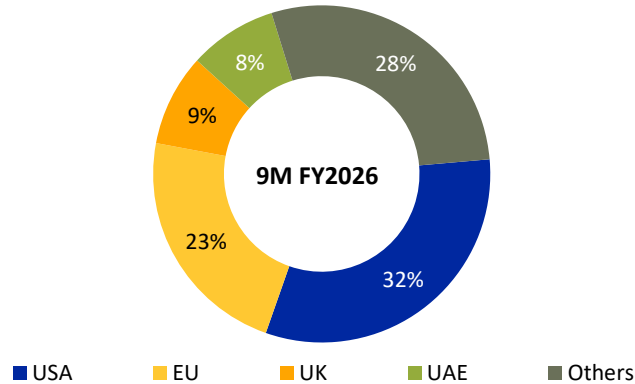
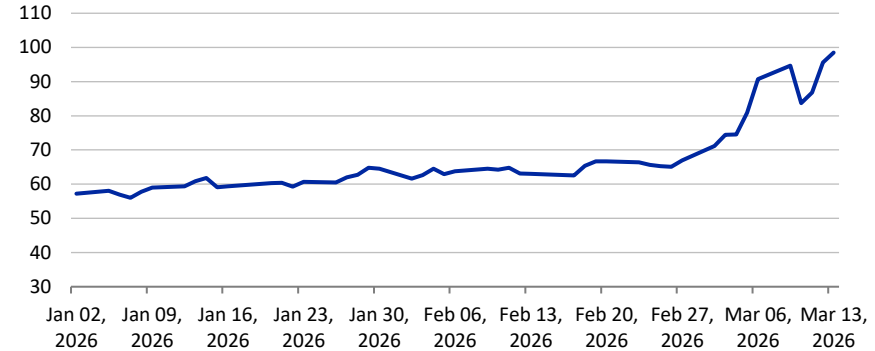


Exhibit 15: WTI Crude oil prices (\$/bbl) in last three months



- The ongoing conflict in West Asia is a key headwind for Indian apparel exporters. Around 8% of the overall apparel exports from India are to the UAE region and the share has been largely range-bound over the last few years. Shipments through the Strait of Hormuz have been affected, and there has been some re-routing, resulting in additional logistics costs and elongation of the cash conversion cycle.
- This apart, players in the manmade fibre segment are affected. With a sharp rise in oil prices, the supply of mono ethylene glycol (MEG) and purified terephthalic acid (PTA), which are the key inputs for producing polyester fibres, have been disrupted. While the players could see some inventory gains (with the general inventory holding period being 1-1.5 months) in the near term, a prolonged conflict could result in non-availability of these inputs apart from a likely increase in their prices, consequently impacting the profit margins.

Source: CMIE, ICRA Research



- Indian apparel exports operate in a **highly competitive, low-margin, labour-intensive environment**.
- To support its global competitiveness, the Government of India provides a layered export incentive framework.



- Among the broader incentives, **Rebate of State and Central Tax and Levies (RoSCTL)** is a critical one for apparel exporters as it supports the margins and enables the exporters to remain competitive among the peer nations. The scheme covers apparels and made-ups and effectively aims at providing refunds for the duties, taxes and levies for inputs and local manufacturing.
- The scheme has been in vogue since 2019 and is due for extension by end-March 2026.



- A 50% reduction in allocation in the recent Union Budget to Rs. 5,000 crore in FY2027 (from Rs. 10,000 crore in FY2026) has raised concerns in the industry over the extension of the scheme.
- A similar extension for **Remission of Duties and Taxes on Exported Products (RoDTEP)**, an incentive for the export of non-apparels, is also due by March 2026. A similar 50% cut in allocation in Union Budget 2027 raises concern over the availability of incentives for the overall value chain.



- If the incentives are not extended, the apparel exporters' margins could come under pressure, in which case the pricing contracts with customers are likely to be renegotiated. Assuming a non-extension and timing gap in renegotiations, the margin could contract by over 100 bps, going forward.
- Overall, a timely extension of the incentives will be a critical monitorable for the apparel exporters.

Apparel exports projected to grow by 8-11% in FY2027

Exhibit 16: Projected revenues and profitability for ICRA's sample set – Sep 2025

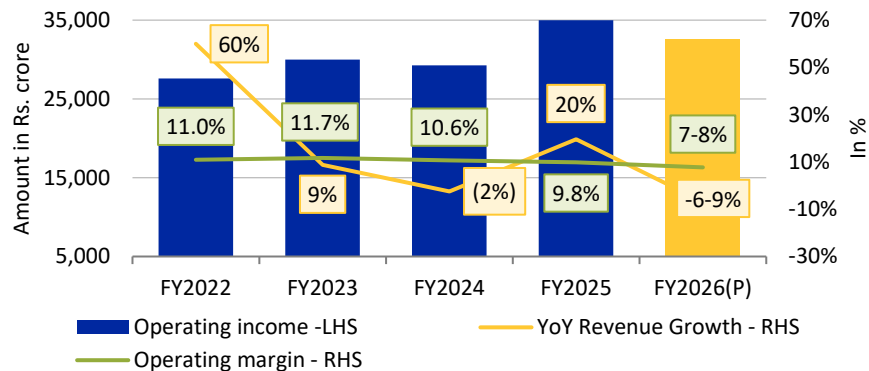
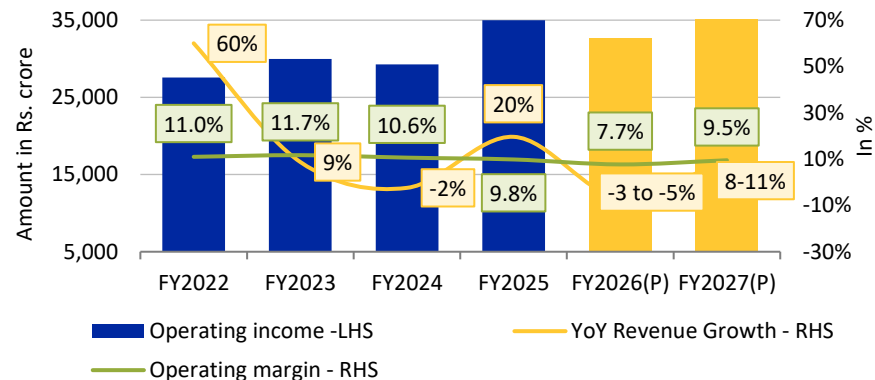


Exhibit 17: Projected revenues and profitability for ICRA's sample set – revised



- The outlook on the Indian apparel sector was revised to Negative in September 2025, with an estimated 6-9% decline in industry revenues in FY2026 and a further decline in FY2027, had the elevated tariff regime persisted.
- With the reduction in tariff rates and the depreciation of the INR against the USD, the extent of the decline is now forecast at a more moderate 3-5% level. Amid the expectation of a stable operating environment, the revenues are projected to rebound in FY2027, with an estimated YoY growth of 8-11%.
- Concurrently, the operating profit margins (OPM), which are expected to compress by about 200 bps to around 7.7% in FY2026, are likely recover to around 9.5% in FY2027, which has prompted the restoration of a *Stable* outlook.

Source: Ace Equity, Annual Reports and Published Financial Results, ICRA Research; ICRA's sample comprises of 13 listed and six unlisted companies

FTA: Free Trade Agreement

UAE: United Arab Emirates

UK: United Kingdom

US: United States of America

EU: European Union (excluding the United Kingdom, except where specifically mentioned)

CY: Calendar Year; refers to the 12-month period starting from January 1 and ending on December 31

FY: Financial Year; refers to the 12-month period starting from April 1 and ending on March 31

H1: First half of a year (Calendar or Financial)

H2: Second half of a year (Calendar or Financial)

MMF: Man-made Fibre

Q1/Q2/Q3/Q4: Quarter of a Year (Calendar or Financial)

13 listed companies considered include: Gokaldas Exports Ltd, S P Apparels Ltd, Celebrity Fashion Ltd, Pearl Global Industries Ltd, Arvind Ltd, Kewal Kiran Clothing Ltd, Loyal Textile Mills Ltd, Mafatlal Industries Ltd, Orbit Exports Ltd, Siyaram Silk Mills Ltd, Zodiac Clothing Company Ltd, Kitex Garments Ltd and Jindal Worldwide Ltd.

6 Unlisted companies considered include: First Steps Babywear Pvt Ltd, Texport Industries Private Limited, Richaco Exports Pvt Ltd, Richa Global Exports Pvt Ltd, Gaurav international and ABC leathers.



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