

INDIAN APPAREL & FABRIC SECTOR

**Growth prospects remain robust,
even as near-term challenges persist**

MARCH 2022



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Apparel exporters report healthy performance in recent quarters; exports breach pre-Covid levels in recent months



- In 10M FY2022, growth in India's apparel exports appeared robust at ~33% YoY, partly owing to the low base effect (~26% YoY decline reported in 10M FY2021). In comparison to the year prior to that (10M FY2020), India's apparel exports stood marginally lower by ~2% in 10M FY2022.



- Trend in India's apparel exports largely continues to be driven by the US and the EU (incl. UK) markets, accounting for ~33% and ~31% share, respectively, in 10M FY2022.



- While India's apparel exports remain cotton dominated, the PLI scheme and the possibility of revision in GST structure to correct the inverted duty structure on MMF, are expected to encourage investments in MMF and help India garner a larger pie in that segment.



- The global apparel trade remained subdued in H1 CY2021 due to incremental waves of infections. However, opening up of economies and revival in discretionary consumer spending supported growth in H2 CY2021.



- Following several alternating stances on the export incentive structure and rates in the recent years, extension of RoSCTL scheme for three years till March 2024 has provided improved clarity, facilitating better pricing of products, which had been a key cause for worry for exporters.



- Russia remains a small market for India's apparel exports, with a share of less than 0.5% in the recent years. As a result, direct impact of the Russia-Ukraine war on India's apparel exports is expected to be insignificant

Highlights – Financial Performance & Credit Profiles

Apparel exporters expected to report a healthy double-digit growth in revenues in FY2022 and FY2023

While higher raw material and logistic costs are exerting cost pressures, steps taken by companies to cut costs, clarity on export incentives and scale benefits are expected to protect the profit margins.

Improved scale and profits are expected to support debt metrics; metrics projected to remain comfortable despite debt-funded capital expenditure likely under the PLI scheme in FY2023 and FY2024



- Even though increased raw material and logistic costs play a spoilsport, companies have been able to achieve improved profitability in the past three quarters led by increased scale, clarity on export incentives and renegotiated prices.



- ICRA expects its sample of apparel exporters to report a healthy double-digit growth in revenues in FY2022 and FY2023. While the larger companies led growth in FY2022, smaller and mid-cap companies are also likely to benefit from favourable demand trends in FY2023.



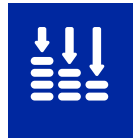
- While higher raw material and logistic costs are exerting cost pressures, steps taken by companies to cut costs, higher export incentives booked in the current fiscal (pertaining to Q4 FY2021) and scale benefits are expected to protect the profit margins.



- Limited capex in recent years, together with opportunities available in global market owing to China plus One vendor strategy, and increased attractiveness of investments in MMF value chain given the recently launched PLI scheme, are likely to encourage capital investments in the sector, by larger and mid-sized players.



- ICRA expects capitalisation and coverage metrics to remain comfortable, despite the projected increase in debt-funded capital investments, with healthy accrual generation and limited debt repayment obligations,



- Driven by multiple reasons, ICRA's credit ratio (ratio of upgrades to downgrades) for the apparels segment remained at less than 1x in the past five years. ICRA expects the credit ratio to stay higher than 1x in the next 6-12 months, led by favourable demand outlook and recovery in performance of players.



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