

INDIAN APPAREL & FABRIC SECTOR

**Indian apparel exports recovers
sharply in FY2025; tariff actions a
key monitorable**

MARCH 2025



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Revival witnessed in India's apparel exports in the current fiscal with the liquidation of inventory at the retailers' level and benefits derived from the China Plus One vendor strategy.

Indian apparel exports grew by 11.6% during April–Jan 2025 and is expected to remain healthy over a medium term. Nevertheless, challenges prevail amid inflationary pressures, tepid economic growth in key end markets, and uncertainty over trade tariffs with the US.



- Global apparel trade is estimated to have remained flat in CY2024 with imports by the EU and the US regions improving by ~2% on a YoY basis in 11M CY2024, and accounting for ~55% of global apparel trade. This follows a ~7% contraction observed on a YoY basis to \$520 billion in CY2023 in global apparel trade amid inflationary pressures and destocking by customers/retailers.



- After witnessing a 10% YoY contraction in Indian apparel exports to \$14.5 billion in FY2024, Indian apparel exports grew by 11.6% YoY in 10M FY2025, with the liquidation of inventory at retailers' level and benefits from the China Plus One strategy.



- The US and the EU (including the UK) markets continue to be the key destinations for Indian apparel exporters, accounting for ~34% and ~31% share, respectively, in 10M FY2025.



- Following a contraction observed in FY2024, with some revival in demand sentiments, the China Plus One vendor strategy and geo-political tension in Bangladesh, Indian apparel exports to the US increased by 13.8% YoY and 11.0% on a YoY basis to the EU region (including the UK) in 9M FY2025. Besides, the depreciation of the rupee against the dollar resulted in exports in INR terms increasing by additional ~160 bps in 9M FY2025.



- Recent developments around geo-political tensions in Bangladesh could result in capacity additions outside the country, including India. However, the availability of low-cost labour and preferential duty access available to least developed country (LDC) for another 1.5 years on exports to the US and EU helps Bangladesh remain competitive against other developing countries.



- Textile promotional schemes like PM MITRA Parks offer an opportunity to create an integrated textiles value chain and would encourage capacity additions in the segment. Seven sites in seven Indian states (Tamil Nadu, Telangana, Gujarat, Karnataka, Madhya Pradesh, Uttar Pradesh and Maharashtra) have been chosen for the parks.

Highlights – Financial Performance & Credit Profiles

Industry revenues expected to increase by 12-14% YoY in FY2025 and increase further by 9-11% in FY2026 with benefits from the China Plus One strategy. However, an increase in labour and inflation in other operating costs shall contract the industry operating margins by 50-75 bps YoY.

Inorganic and greenfield expansions by select players in ICRA's sample set led to an increase in capex investments in FY2024. Capex spending is estimated to remain elevated in FY2025 and moderate in FY2026.



- ICRA expects the industry revenues to grow by 12-14% in FY2025 and by 9-11% in FY2026 with increasing volumes and realisations (excluding the impact of inorganic acquisitions by certain companies). The benefits from the China Plus One vendor strategy and improvements on the back of inventory liquidation at importers' end to support the growth. However, with increase in labour and inflation in other operating costs, operating margins are expected to moderate by 50-75 bps.



- The ongoing inorganic expansions and large debt-funded capex by certain players in ICRA's sample set had led to increase in cash outflows in FY2024. This trend is expected to continue further in FY2025, based on an estimation of demand revival. Further, with Bangladesh likely to graduate from its LDC status in a 1.5 years, and industry players' strategies to take advantage of C+1 movement, ICRA expects capex spending to remain elevated in FY2025 and FY2026 and is estimated to be around 5-8% of the turnover.



- Due to the inorganic expansions and large debt-funded capex incurred by players in ICRA's sample set, the interest coverage ratios are likely to moderate (to 4.6x in FY2025 and 4.8x in FY2026, against 5.8x in FY2023 which moderated to 4.9x in FY2024) and Total Debt/ OPBDITA is likely to stretch marginally (from 2.1x in FY2024 to 2.5x in FY2025 and improve to 2.2x in FY2026).



- Following the trend of higher number of rating upgrades over downgrades in FY2023, ICRA's credit ratio was largely flat in FY2024 and during 11M FY2025, on account of relatively weaker performance of select issuers.



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