

# INDIAN APPAREL & FABRIC SECTOR

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**US tariffs reshape the Indian apparel  
exports landscape**

**September 2025**



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## 2 Emerging Trends in Global Apparel Trade



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### Peer Comparison & Company Section





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*Indian apparel exports grew by 7.8% (YoY) during April to July 2025 and dipped by 2.7% in August 2025, indicating initial stress over additional US tariffs.*

*Uncertainty looms over apparel exports. However, any positive development over the ongoing tariff related negotiations coupled with the implementation of FTA with the UK would support an improvement in Indian apparel exports over the medium term.*



- Global apparel trade increased by 3% (YoY) in CY2024, after experiencing a 7% decline in 2023. In 5M CY2025, apparel imports from the EU and US, which make up around 50% of global trade, rose by 8% (YoY) with restocking by the EU retailers as well as advancement of shipments to the US ahead of the additional tariff imposition. The global apparel trade currently remains cautious amidst evolving tariff-related uncertainties in the US.



- In FY2025, India's apparel exports grew 10% on a YoY basis with recovery in demand, following the increasing shift in apparel sourcing from India due to the China Plus One (C+1) strategy. This trend continued in 5M FY2026, wherein India's apparel exports grew 5.7% on a YoY basis.



- The latest round of US tariff imposition by the US, effective August 27, 2025, has added a punitive 25% tariff on Indian goods, pushing the effective tariff burden to 50% (over and above 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 US and European markets (including EU and UK) continue to be the major markets for Indian apparel exporters, accounting for 33-34% and 31-32% share, respectively, in FY2025 and Q1 FY2026.



- While the advancement of shipments to the US ahead of the additional tariff imposition has offered a semblance of relief, India's share in the US apparel imports is expected to decline sharply in H2 CY2026 if the absolute/ relative US tariff levels persist.

# Highlights – Financial performance & credit profiles

*Industry revenues expected to dip by 6-9% YoY in FY2026, if the recently imposed higher tariffs by the US continue. Besides, 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.*

*Additional tariffs levied by the US to result in a reduction in incremental capacities added within India. Certain entities are setting up / enhancing capacities outside India.*



- 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.



- If the recently imposed tariffs continue, ICRA expects the revenues of apparel exporters to decline by 6-9% in FY2026, despite the 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. Implementation of the Free Trade Agreement (FTA) with the UK is likely to offer some relief in FY2027.



- 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(compared to 4.6 times and 2.3 times, respectively, in FY2025).



- Subsequent to the trend in higher number of rating upgrades compared with downgrades in FY2023, ICRA's rating actions since then in the Textiles (Apparels) sector show that the instances of upgrades and downgrades have been more even.



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