

# INDIAN APPAREL & FABRIC SECTOR

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**US tariff reduction provides some  
respite amidst the turbulent  
geopolitical environment**

**March 2026**

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## 3 Shaping New Trade Corridors: India's Recent and Emerging FTAs



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*Indian apparel exports (in USD terms) grew by 1.5% YoY during 10M FY2026, despite tariffs imposed by the US. A depreciating rupee supported a 5.8% growth in INR terms; while exports to the US declined by around 6% in USD terms. This was offset by increased exports to other geographies (like the UK, the UAE, etc.).*

*While the reduction in US tariffs and signing of FTA with EU and UK are positives, an early resolution of West Asia conflict will be critical for improvement in overall trade sentiments.*



- Global apparel exports, estimated at around \$550 billion, are largely influenced by the imports from the EU and US, which make up around 50% of global trade. Imports from both these geographies collectively are estimated to have risen by 5-6% (YoY) in 11M CY2025. Imports by the EU are likely to have grown by around 9% over this period with higher restocking by retailers. However, there has been a moderation in volumes imported by the US (-3 to -4%) due to the adverse effect of tariffs on consumer demand.
- India's apparel exports, which stood at around USD 16 billion in FY2025, represent around 3% of global trade. India's export grew by a modest 1.5% YoY in 10M FY2026 due to the heightened US tariffs. The US and Europe (including EU and UK) continue to be the major markets for Indian apparel exporters, accounting for 32-33% and 31-32% share, respectively.
- Following the February 2026 US Supreme Court ruling on reduction in tariff levies and the subsequent tariff of 10% levied on Indian apparel exports, the apparel volumes exported to the US from India could see a positive momentum. While the reduction in US tariffs and signing of FTA with EU and UK are positives, early resolution of West Asia conflict will be critical for improvement in sentiments.
- Further, the US tariff situation continues to evolve and further changes cannot be ruled out following the initiation of Section 301 investigations by the US on India's textiles sector. Additionally, the validity of Rebate of State and Central Levies and Taxes (RoSCTL) is set to expire on March 31, 2026. Extension of the same remains a key monitorable as it would have a bearing on profitability of apparel exporters.

*Outlook on Indian apparel exports revised to Stable from Negative in February 2026. With the tariff reduction, ICRA expects revenues of apparel exporters to increase by 8-11% (YoY) in FY2027, and margins are likely to recover by approximately 200 basis points to around 9.5% in FY2027.*

*Moderate increase in capacity additions is expected in FY2027 with formalisation of FTA with the UK and the EU. Evolving tariff regime in the US deters large debt-funded expansion within India.*



- Around 8% of Indian apparel exports are to the UAE and a relatively higher proportion to the West Asian region. If the conflict is prolonged and disrupts sea routes through the Strait of Hormuz (or even the Red Sea), it would stall or delay shipments, including necessitating rerouting. This would translate into business loss as well as an elongation of the cash conversion cycle.

- **Outlook on Indian apparel exports revised to Stable from Negative in February 2026.** In September 2025, ICRA had revised the outlook to Negative, following the imposition of punitive tariffs 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 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 geopolitical conflicts (including recent conflict in West Asia) could pose a downside risk to ICRA's estimates.

- ICRA estimates lower capex spending in FY2026 and expects a moderate increase in FY2027 with likely formalisation of the FTA with the UK and the EU.

- A recovery is expected in FY2027, with operating margins improving compared to FY2026 level, which was impacted by US tariffs. Interest coverage ratios is expected to improve (to 4.6x in FY2027, against 3.3x in FY2026), Total Debt/ OPBDITA is likely to improve (to 2.3x in FY2027 from 3.3x in FY2026).



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