PRESS RELEASE

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Apparel exports to grow by 8-9% in FY2025 led by expected demand towards stock replenishment in US and EU regions: ICRA

ICRA has recently published a research note on the Indian apparel export industry. Following the tepid demand environment in FY2024, ICRA expects a muted 8-9% recovery in revenues of its sample companies[1] to Rs. 28,150 crore in FY2025 from Rs. 26,000 crore for FY2024, benefitting from the low base and with replenishment of stock in the US and the EU regions. The retail apparel brands in the US and the EU, which together account for close to 55% of global apparel trade, are expected to liquidate the high inventory build-up and book their orders for the Summer 2024 season in H1 FY2025. ICRA's outlook for the apparel industry remains Stable.

Commenting on this, **Mr Priyesh Ruparelia, Vice President & Co-Group Head, Corporate Sector Ratings, ICRA** said: *"After a nominal decline in revenues in FY2024, ICRA expects the apparel-exporting companies to report a recovery in FY2025 on a lower base, with replenishment of stock in the US and the EU regions. Despite a rationalisation in raw material costs in FY2024, the benefit is expected to be passed on to the end-users, considering a weak operating environment at present. The long-term growth prospects look encouraging, with the Government of India's various promotional steps, including the PLI schemes, the PM Mitra parks, the proposed FTAs with the UK and the EU and the longer-term benefit of China Plus One shift in apparel sourcing".*

Despite the ongoing Red Sea conflict, no immediate cost implication is being felt by apparel exporters operating on an FOB basis, except for their shipments getting delayed by ~15 days from its original transit time. Any sustained continuance of this face-off would have a direct impact on apparel export volumes and their realisations due to higher costs for the customers.

A difficult operating environment had pushed back large capex investments for most players. However, based on an expectation of demand revival in FY2025 and the industry players' strategies to take advantage of the China Plus One movement, ICRA expects a pick-up in capex spending in FY2025.

Out of the approved 64 applicants for the PLI 1.0 scheme in April 2022, 56 completed the mandatory criteria for formation of a new company and approval letters have been issued. Twelve more applications are under evaluation at present, for selection of investors under the scheme. Investment of ~Rs. 2,119 crore by 30 selected applicants has been made till September 2023. In addition to the fresh capacity additions under the PLI, the PM Mega Integrated Textile Region and Apparel (MITRA) schemes will strengthen India's presence in the global apparel trade, by providing scale benefits and strengthening the country's presence in the MMF value chain. ICRA anticipates the culmination of these schemes to enable the Indian apparel exporters to capture a greater share of the Chinese apparel export market.

The rating agency estimates its sample companies to report a mild 5-6% YoY dip in revenues to Rs. 26,000 crore for FY2024. Despite US apparel imports declining by ~22% in CY2023, their retail clothing store sales had remained resilient registering a 4% YoY growth, with retailers unwinding their excess inventory position. Amidst no major debt addition, the coverage ratios of the sample set are expected to marginally moderate as earnings weaken.

[1] *ICRA's sample of 18 Apparel exporting companies of which 13 are listed, representing around 15% of the total Indian apparel exports.*

ICRA's sample set of apparel-exporting companies is likely to report an interest cover of ~5.6-5.8 times and total debt/ OPBDITA of ~1.8-1.9 times in FY2024 and FY2025, respectively (compared to ~6.3 times and ~1.5 time respectively, in FY2023).

The operating margins of apparel exporters may moderate to 9.8-10% in FY2024 (11.3% in FY2023), on relatively weaker operating performance in 9M FY2024 and contraction in volumes leading to decline in operational efficiencies. Indian cotton yarn prices had averaged ~23% lower in 9M FY2024 compared to FY2023 and 1% lower than the past five-year average. Despite moderation in cotton yarn prices, the same is getting passed on to the customers owing to a weak demand environment. Nevertheless, the stability of export incentives, together with the benefits of higher scale, should help the companies cushion the impact on profitability in FY2025.

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