INDIAN APPAREL & FABRIC SECTOR

Tailoring the future: Indian apparel exports gain ground amid cautious optimism

SEPTEMBER 2024

Highlights – Industry Trends

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Revival witnessed in India's apparel exports in last few quarters following the liquidation of inventory at the retailers' level and benefits derived from the China plus one vendor strategy.

Indian Apparel exports grew by 6% during April–Jul 2024 and are expected to remain healthy for the remainder of FY2025. Nevertheless, challenges prevail amid inflationary pressures and tepid economic growth in key end markets.

- After witnessing healthy growth in CY2021 and CY2022 (post Covid), global apparel trade had declined by ~7% to $520 billion in CY2023 amid inflationary pressures and destocking by customers/retailers. Imports by the EU and the US, accounting for ~55% of global apparel trade, contracted by ~3% YoY during H1 CY2024, following an ~11% YoY fall in CY2023.
- Indian apparel exports declined by 10% to $14.5 billion in FY2024 on a YoY basis in line with the contraction in global trade, following a flattish growth in FY2023. However, Indian apparel exports grew by 6% YoY in April–July 2024 following the liquidation of inventory at retailers' level and benefits from China plus one.
- The US and EU (including the UK) markets continue to be the key destinations for Indian apparel exporters, accounting for ~32% and ~31% share, respectively, in FY2024. Share of the US rose to ~34% in 4M FY2025.
- Indian apparel exports to the EU had declined by ~11.8% and stood at $4.5 billion while those to the US declined by ~19.6% and stood at $4.7 billion in FY2024 on a YoY basis due to inflationary pressures and tepid economic growth in the key international markets. However, with some revival in demand sentiments, exports to the US increased by 7.6% YoY during 4M FY2025 and remained flat for the EU region.
- Recent developments around geo-political tensions in Bangladesh could result in capacity additions outside Bangladesh, including India. However, the availability of labour at lower costs and preferential duty access available to least developed country (LDC) for a couple of years on exports to the US and EU supports Bangladesh remaining 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

ICRA

Industry revenues expected to increase by ~9-11% YoY in FY2025 with the revival in demand. However, an increase in labour and inflation in other operating costs shall contract the industry operating margins by 30-50 bps YoY.

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

- ICRA expects the industry revenues to grow by 9-11% in FY2025 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 30-50 bps.

- The ongoing inorganic expansions and large debt-funded capex by certain players in ICRA's sample had led to increase in capex spent 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 couple of years, and industry players' strategies to take advantage of C+1 movement, ICRA expects capex spending to remain elevated in FY2025 and is estimated to be around 5-8% of turnover.

- Due to the inorganic expansions and large debt-funded capex incurred by players in ICRA's sample, the interest coverage ratios are likely to moderate (to 4.9x in FY2025 and 5.3x in FY2026, against 5.8x in FY2023 which moderated to 5.0x in FY2024) and Total Debt/ OPBDITA is likely to weaken (from 2.2x in FY2024 to 2.3x in FY2025 and improve to 2.1x 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 5M FY2025, on account of relatively weaker performance of issuers.

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