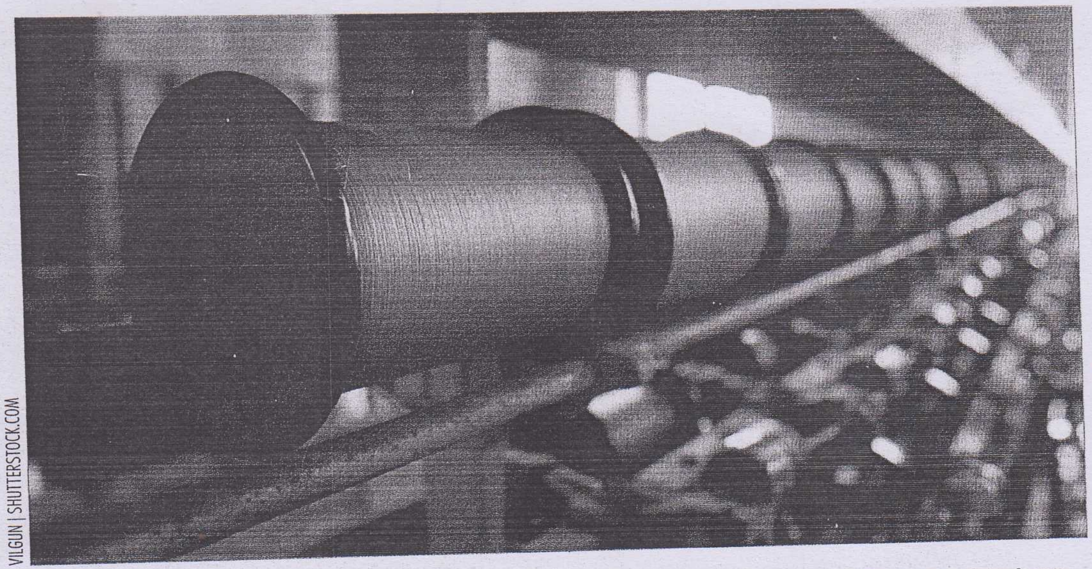

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With competing countries having limited capacity to make cotton-based home textile products, the overall revenue decline for the industry will be limited to 5 to 10 per cent. The impact will be more profound on the companies generating more than half of their revenues from the US. Indian manufacturers will have to look at alternative markets in the EU and the UK, which together accounted for almost 13 per cent of India's home textile exports last fiscal. However, this will take time. With Indian exporters forced to absorb part of the higher tariffs, some expected inflation-induced reduction in demand from the US and potential oversupply in the EU market will make industry-level operating profitability to fall 200-250 bps compared to last fiscal.

Silver Lining

Amidst a series of setbacks in 2025, Indian apparel manufacturers found a salvaging window. Many big US retailers, such as Nike, Levi's, Tommy Hilfiger and Walmart (through Flipkart) have a strong retail presence in India, which is not just a production hub but also a major retail market for them. Their retail presence carries importance because under India's FDI rules, foreign single-brand retailers with 100 per cent ownership must source at least 30 per cent of what they sell in India from within the country. This sourcing rule is averaged over the first five years and then becomes an annual requirement. Therefore, even if US-bound exports slow down because of tariffs, these brands will still need Indian manufacturers for their local stores. This provided some solace to the troubled apparel manufacturers in the country.

Comprehensive Economic & Trade Agreement (CETA)

Sensing more trouble coming from the US tariffs after 90-day reprieve, India timely signed CETA with the UK, the nation's third-largest export destination which accounted for 5.80 per cent of textile exports in 2024, on July 24. India is the fourth-largest textile supplier to the UK, with a 6.6 per cent market share ($1.79 billion). With CETA, India's textile exports will be able to enter the UK duty-free, once the agreement comes into force. This move removed previous tariff disadvantages and provided a competitive edge to Indian exporters vis-a-vis regional rivals like Bangladesh and China. The pact is seen to potentially double India's share of UK imports from 6 per cent to about 12 per cent and in volume terms, the pact can boost textiles exports to the UK by 30-45 per cent by 2030, translating into an additional $500-800 million in export value. India's free trade pact with the UK will boost shipments of garments, home textiles, carpets and handicrafts. Domestic exporters can leverage the trade agreement to significantly tap opportunities in Britain, which imports $27 billion worth of textiles annually.

Expectation from the Government

To soften the blow of 50 per cent tariff by the US, the Indian government announced some measures, including a suspension of import duties on raw materials. Trade talks with other countries also gathered momentum to diversify markets. The government removed 10 per cent import duty on cotton till December 31, 2025. In addition, the Indian textile exporters want support in the form of expanding of export markets through government's dedicated outreach programme to 40 nations, as well as export incentives and interest subsidies, to support the competitiveness and profitability of Indian textile exporters. Moreover, the export loss of RMG and home-textile products is likely to be compensated by growth in exports of cotton yarn and fabric as the competing nations lack backwards integration in these products.

Moving Ahead

It is widely expected that the losses incurred due to the imposition of reciprocal tariffs by the US on Indian textiles will be greatly offset by increased exports to the UK. Ongoing EU trade negotiations may further boost India's textile trade, opening additional avenues, signalling a strategic realignment of the nation's textile trade landscape. Overall, while textile exports are expected to decline, government support and growth in yarn and fabric exports could mitigate the impact.

RELIEF MEASURES ANNOUNCED BY THE INDIAN GOVERNMENT

- Central Bank announced a moratorium on all term loans, due between September 1 and December 31, 2025, payable by exporters; applicable to 20 sectors impacted by the tariffs, including textiles and garments.
- Country's exporters permitted to repatriate earnings from their shipments in 15 months instead of the existing timeline of 9 months.
- Maximum credit period for export loans disbursed until March 31, 2026 raised to 450 days from 270 days.
- Limits for shipment of goods eased to three years from the date of receipt of advance payment from the current time frame of one year.
- Central government approved spending ₹450.6 billion ($5.1 billion) on support for exporters, including ₹200 billion in credit guarantees on bank loans.
- Government introduced tax reductions on raw materials and inputs such as man-made fibres to support textile shipments.