



TM

Textiles

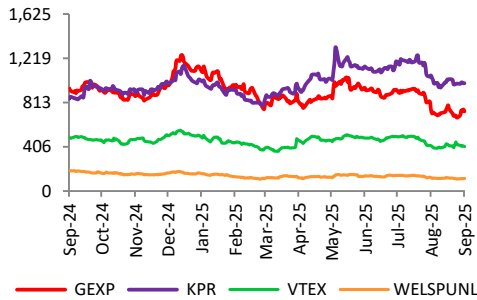
12 September 2025

SECTOR UPDATE

Industry

Textiles

Stock Performance (1-year)



Source: Systematix Institutional Research

Sector recommendations

Ticker	Mkt Cap (Rs bn)	TP (Rs)	Rating
GEXP	57	812	HOLD
KPR	341	1,041	HOLD
VTEX	128	565	BUY
WELSPUNL	120	155	BUY

Source: Systematix Institutional Research

Downstream textiles - Navigating the tariff turbulence

We present key takeaways from a Crisil webinar, “Weaving Through Tariff Headwinds”, which focused on India’s downstream textile sector. Discussions centered around the fallout of elevated US tariffs, divergent demand drivers, margin headwinds, and evolving export opportunities. While near-term risks persist, industry participants reiterated that India’s integrated supply chain, policy support, and market diversification strategies continue to provide a favourable medium-term backdrop. Key monitorables: continuation of US tariffs, US consumer sentiment, raw material price trajectory, and global retailer inventory cycles.

Key takeaways from the webinar:

- **Tariff headwinds:** The sharp escalation in US tariffs is the most significant disruptor in India's downstream textile sector. It has reshaped the country's competitiveness against global peers.
- **Divergence in performance:** The sector is facing divergence in terms of ready-made garments (RMG) seeing resilient domestic consumption and home textiles (HT) pressured by export dependency. However, the industry does not view this as a structural derailment.
- **Medium term support:** Stabilizing export demand, incremental policy catalysts (like FTA gains), and India’s integrated value-chain advantages underpin medium-term growth. India's integrated supply chain, policy support, and market diversification strategies provide a favorable medium-term backdrop.
- **Strategic adaptation:** Textile players are adapting through aggressive cost efficiency measures, including tighter working capital management, renegotiating supply contracts, consolidating procurement, and shifting to renewable energy. Diversification into alternate markets and sustained product innovation are expected to aid growth and reinforce competitiveness in the long run.
- **RMG**
 - o **Moderate growth cushioned by domestic market:** Crisil expects RMG players to record moderate 3%-6% growth if 50% tariffs persist, largely cushioned by its domestic exposure. However, expected 8-10% increase in domestic demand, which supports 70-75% of RMG revenues, should soften the blow from US tariffs.
 - o **Structural advantages:** These include a) India’s integrated supply chain, b) competitiveness in value-added garments, and c) policy support through the UK FTA. These factors cumulatively mitigate the medium-term risks.
- **HT**
 - o **High vulnerability to US tariffs:** Higher vulnerability of the HT segment comes from the heavy reliance on exports, with the US alone accounting for 40-45% of the industry's total exports. As a result, the segment’s revenue could degrow by 5-10% in FY26, if tariffs were to continue.
 - o **Structural challenges:** These include a) high concentration risk in the US market, b) limited scale in domestic organized retail, and c) relative cost disadvantages versus peers in commoditized categories.

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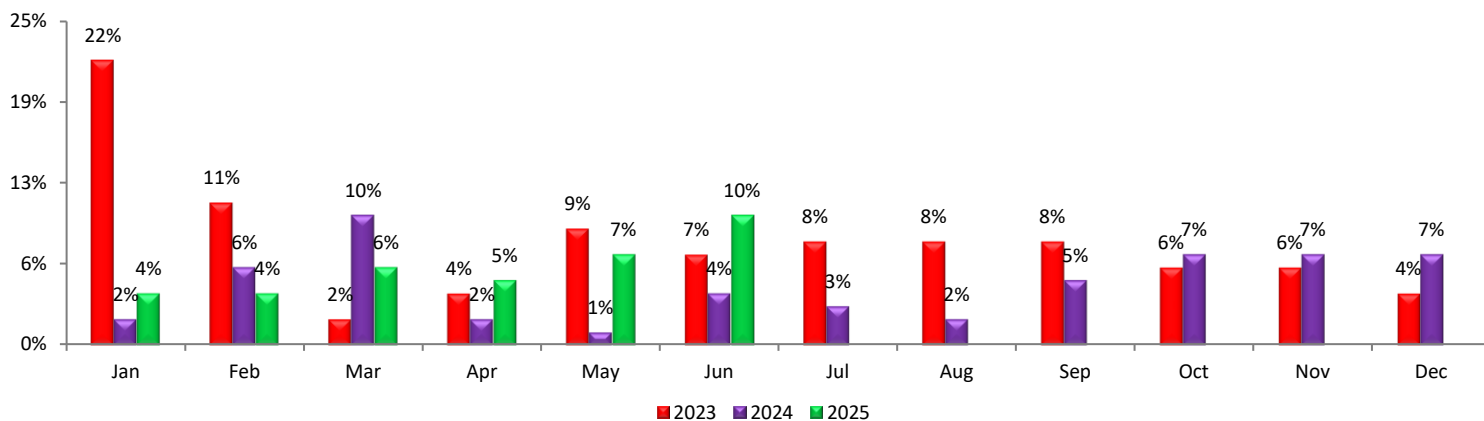
Exhibit 1: Valuation of companies under coverage

Company name	Rating	Mkt Cap (Rs bn)	CMP (Rs)	TP (Rs)	Upside (%)	PE (x)		EV/EBITDA (x)		RoCE (%)		RoE (%)	
						FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Gokaldas Exports	HOLD	57	780	812	4%	53.5	24.0	19.6	12.4	4.5	8.6	4.8	9.6
KPR Mill	HOLD	341	996	1,041	4%	32.1	27.0	21.9	18.6	21.8	22.3	19.6	19.8
Vardhman Textiles	BUY	128	435	565	30%	12.5	9.2	9.8	7.2	8.2	10.8	9.7	11.9
Welspun Living	BUY	120	123	155	26%	17.9	12.7	11.3	8.7	12.5	15.7	12.9	15.9

Source: Systematix Institutional Research

Detailed takeaways**Readymade garments (RMG)****Domestic strength cushions tariff headwinds**

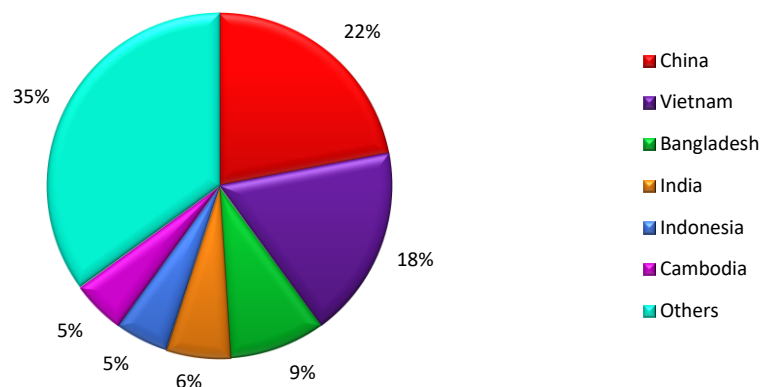
The outlook for the RMG industry remains resilient despite steep US tariffs, which could moderate exports in FY26. The domestic market, contributing 70–75% of revenues, provides a strong buffer against external shocks. Rising discretionary consumption, supported by sustained economic growth, softening inflation, accommodative monetary policy, and GST cuts on low-ticket garments, is driving robust demand. Early FY26 trends in apparel sales and production indicate a healthy consumption environment. The growing penetration of organized retail and e-commerce is further strengthening demand visibility, giving confidence that domestic growth will offset external weakness.

Exhibit 2: India apparel retail sales trend- YoY growth (%)

Source: Wazir Advisors, Systematix Institutional Research

Export growth capped by US tariffs, though exposure remains moderate

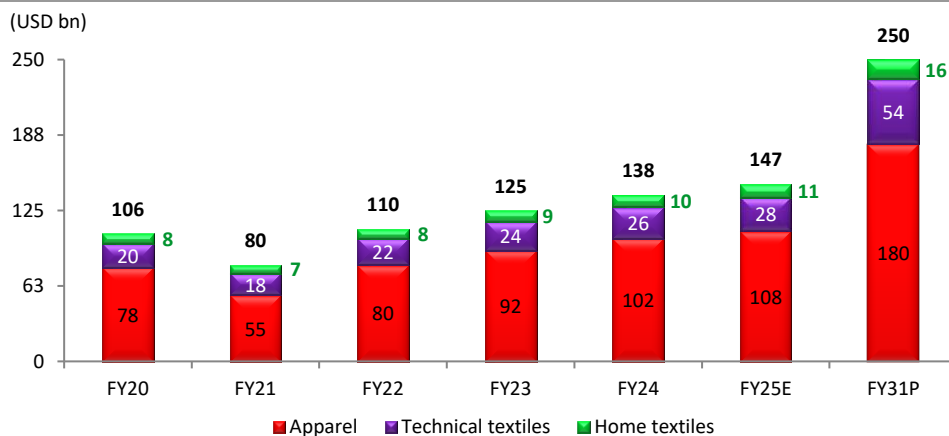
The US remains a key export market, accounting for 8–10% of India's RMG revenues, but recent tariff hikes are expected to limit growth in FY26. Export orders may be pressured as retailers negotiate sharper price points, compressing realizations for Indian suppliers. India's advantages in value-added categories such as fashion apparel, embellished products, and complex stitching styles provide insulation, as competitors like Bangladesh and Vietnam have limited capacity in these segments. India's integrated supply chain and ability to provide just-in-time deliveries also remain attractive for global brands, ensuring continuity of relationships even in weaker demand conditions. While near-term disruption is real, India's medium-term positioning within the global apparel value chain remains intact.

Exhibit 3: Share of RMG in US imports (FY25)

Source: Trade Map, Crisil, Systematix Institutional Research

Domestic resilience offsets margin pressure from exports

RMG margins are expected to face modest pressure despite the tariff shock. Exporters would be required to absorb part of the cost, as US retailers are unwilling to shoulder the majority, leading to a sharing of the burden across the value chain. Should the 50% tariffs persist, margins could get compressed by 50-150 bps, mainly in export-oriented operations. A more immediate risk stems from volumes getting redirected into the domestic market, which could create an oversupply situation and weigh on pricing. Nevertheless, resilient discretionary demand and supportive raw material trends, particularly softer cotton prices, are anchors for domestic margins. Overall, RMG players remain structurally better positioned than other textile segments to withstand the tariff disruption.

Exhibit 4: Size of India's Textile & Apparel market

Source: Wazir Advisors, Systematix Institutional Research

Industry perspective: Navigating disruption while focusing on sustainable growth

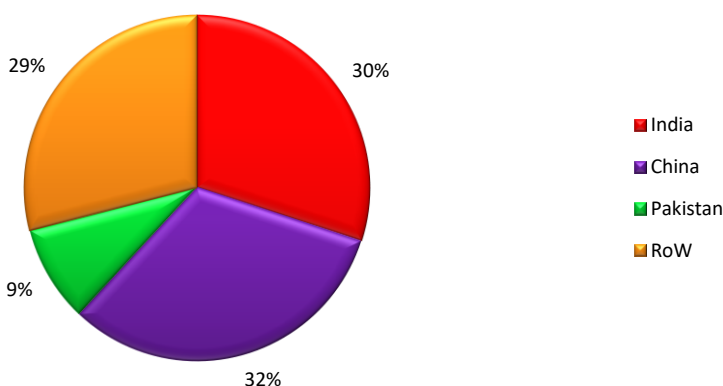
Panelists stressed that while tariffs are disruptive in the short term, they do not alter the fundamental trajectory of the industry. Relationships with global retailers and brands, built on trust and reliability, are expected to sustain through this period of volatility. The consensus view was that FY26 would be a year of transition, requiring sharper focus on partnerships, tighter cost management, and market diversification. Over the medium term, with domestic demand expanding steadily and new trade agreements opening opportunities in developed markets, the RMG industry remains on a growth trajectory, albeit with near-term moderation.

Home Textiles (HT)

Heavy reliance on the US market creates near-term stress

Unlike RMG, the HT segment is structurally more exposed to the US. Exports constitute bulk of the revenue, with the US alone accounting for 40-45% of the HT industry. Panelists observed that this dependence has left the segment vulnerable to the sharp escalation in tariffs, which could weigh heavily on revenue of the segment through the remainder of FY26. Demand for home furnishings in the US is also inherently more discretionary, with the current macroeconomic conditions, including inflationary pressure and weaker consumer confidence already suppressing household spending. The combination of higher tariffs and muted demand could drive a tangible slowdown in export volumes, with companies bracing for revenue compression in the near term.

Exhibit 5: India's share in US' HT imports (FY25)



Source: Trade Map, Crisil, Systematix Institutional Research

Competitive dynamics limit India's pricing power

India faces a disadvantage in tariff parity relative to peers such as China and Pakistan, both of which enjoy lower or more favourable duty structures. Given that these countries also account for a large share of the US imports, buyers are likely to rebalance sourcing towards them where feasible. Panelists noted, however, that India retains a stronghold in certain cotton-based categories such as bed linen and higher-value sheeting products, which competitors would find it difficult to easily substitute. Still, some order diversions cannot be ruled out, particularly in commoditized sub-segments like towels, where Pakistan has a sharper cost advantage. Such imbalance could weigh on margins, as Indian suppliers would be compelled to absorb part of the tariff cost during negotiations with retailers.

Margin compression inevitable, as costs are shared across the chain

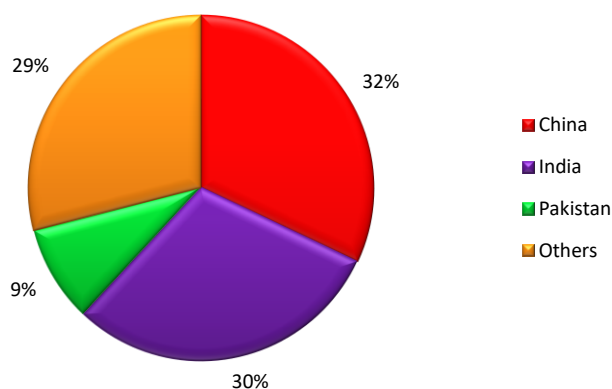
Operating margins of HT exporters are projected to contract by 200-250 bps, as per Crisil, if the 50% US tariff continues. Retailers could push for renegotiations, with only limited scope to pass on the higher costs to consumers, resulting in the burden being shared largely between retailers and manufacturers. Indian suppliers are therefore likely to absorb a meaningful portion of the tariff impact. Margin pressures could get further compounded by weak demand visibility, which would reduce their ability to pass through the price increases. Inventory dynamics at large US retailers such as Walmart and Target also add to the uncertainty (some normalisation was visible in the July quarter), with the festive season restocking in October also a key monitorable. Even though capacity constraints across competing nations may

prevent immediate substitution away from India, near-term pressure on margins is set to intensify, as US retailers adopt a cautious stance during the festive procurement cycle.

Profitability pressures intensify amid rising cost absorption

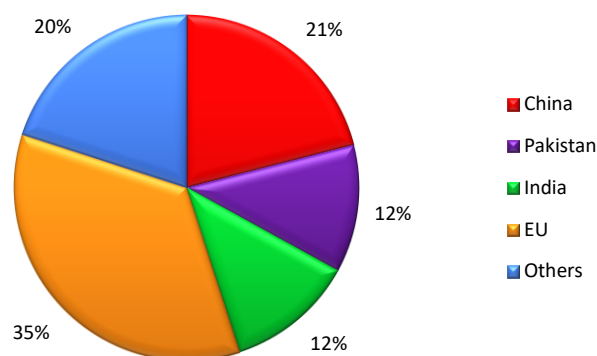
While the domestic market has historically been a small share of HT players' revenues, it is beginning to offer a new growth lever. In recent years, organized brands have expanded their presence in urban retail and e-commerce channels, leveraging rising disposable incomes and a growing preference for branded home products. Panelists highlighted that the domestic opportunity remains underpenetrated, and players are increasingly seeking to tap this segment as a hedge against export volatility. However, the scale of domestic sales is unlikely to compensate for US weakness in the short term, given the structural dominance of exports in HT players' revenue mix.

Exhibit 6: India's share of US HT imports



Source: Trade Map, Crisil, Systematix Institutional Research

Exhibit 7: India's share of UK HT imports



Source: Trade Map, Crisil, Systematix Institutional Research

Strategic adaptation focused on diversification and efficiency

The panel discussion underscored how HT companies are actively pursuing diversification strategies to mitigate their dependence on the US markets. It laid stress on the recently signed UK FTA, which offers meaningful potential by eliminating duties and levelling the playing field with Bangladesh, a key competitor. Europe too remains a sizeable import market, and Indian exporters are looking to build stronger linkages there. On the operational side, cost optimisation is a central theme, with efforts ranging from consolidating suppliers to increasing productivity and investing in renewable energy to reduce power costs. Panelists stressed that while near-term pain is inevitable, the long-term positioning of India's HT sector remains intact, anchored by strong integration across the cotton value chain and established global customer relationships.

Global trade and policy landscape

The sharp escalation in US tariffs has become the most significant disruptor for India's downstream textile sector, reshaping its competitiveness against global peers. RMG players are somewhat cushioned by their strong domestic orientation, but the HT industry is feeling the brunt, given its reliance on exports to the US. At the same time, new opportunities are opening in alternate markets. The UK FTA is expected to level the playing field by eliminating duties, improving India's position relative to Bangladesh, Cambodia, and Pakistan. Europe also remains an important market where exporters are seeking to deepen their penetration. Bangladesh's loss of duty-free status in 2026 could provide Indian players with a structural edge, particularly in the UK and EU markets. These shifts suggest that while near-term exports face headwinds, India's trade positioning could strengthen materially, once the tariff environment stabilizes.

Exhibit 8: Tariffs and FTA structure

Competing nations	US tariffs	UK FTA	
	Reciprocal tariffs	Pre FTA	Post FTA
India	50%	6-12%	0%
China	30%	6-12%	6-12%
Bangladesh	20%	0%	0%
Vietnam	20%	0%	0%
Pakistan	19%	0%	0%
Indonesia	19%		
Cambodia	19%		
Turkey	19%		

Source: Crisil, Systematix Institutional Research

Operational dynamics

Although tariffs are expected to weigh on margins across the value chain, the severity could differ by segment. For RMG, the drag is relatively contained, thanks to resilient domestic sales and supportive raw material prices. The HT segment, on the other hand, is more exposed - retailers are unlikely to absorb the full tariff hike, forcing manufacturers to concede pricing and absorb part of the burden themselves. Panelists emphasized that textile players would need to adapt by pursuing aggressive cost efficiency measures, including tighter working capital management, renegotiating supply contracts, consolidating procurement to unlock scale efficiencies, and shifting to renewable energy to reduce power costs, which typically account for 7-8% of the cost base. A weaker rupee and softer cotton prices provide some immediate relief, but participants also highlighted the need for timely government support before there is significant impact on profitability. In the near term, margins are expected to stay thin; however, over the long term, diversification into alternate markets and sustained product innovation should aid growth and reinforce competitiveness.

Key risks

The outlook on the sector is highly contingent on external and industry-specific variables. Chief among them is whether the US maintains or rolls back tariffs, as this would directly determine export flows and pricing dynamics. US consumer demand is another critical swing factor, with inflation and sentiment dictating discretionary spending trends. Cotton prices, though benign at present, remains a key monitorable, given its volatility and impact on margins. Global retailer inventory

cycles add another layer of risk, as excess stocking could delay fresh orders in the ensuing quarters. On the domestic front, sustaining discretionary consumption is essential to offset export weakness. Cumulatively, these factors have the potential to shape the near-term revenue, margin, and cash flow trajectories across both the RMG and HT segments.

Industry sentiment – Perspectives of panelists

The panel discussion struck a pragmatic note. Tariffs were viewed as a disruptive but temporary hurdle, rather than a structural break in India's competitiveness. Industry leaders stressed the importance of prioritizing customer retention over short-term pricing disputes, characterizing the current phase as one of "partnership over panic." While acknowledging near-term pain, especially in HT, participants reiterated India's long-term strengths as a fully integrated cotton-based supply chain, a differentiated product mix, and entrenched global relationships. They also highlighted the growing role of the domestic market, both as a stabilizer for RMG and as an emerging growth lever for HT. Strategic pivots such as expanding into the UK and EU, focusing on product innovation, and driving cost efficiencies were repeatedly cited as key to navigating the present volatility.

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