

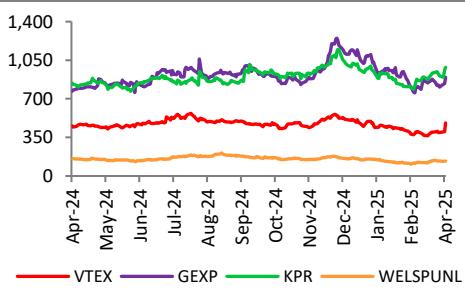
04 April 2025

Indian Textiles

SECTOR UPDATE

Industry Textiles

Stock Performance (1-year)



Source: Systematix Institutional Research

Reciprocal tariff could be favourable for India's textile sector

On 2 April 2025, US President, Donald Trump, announced reciprocal tariffs, aiming to equalize the tariff rates that US faces from its trading partners. Under this policy, Indian exports to the US now face a tariff of 27%. Although steep, it is still lower than that imposed on key competitors in the textiles and apparel sector, such as Vietnam (46%), Cambodia (49%), China (34%+20% previously announced), Bangladesh (37%), and Pakistan (29%). We expect the tariff hike to disrupt global supply chains, raise costs and prompt companies to diversify sourcing. While many Asian exporters face challenges, this is a unique opportunity for India to strengthen its position in the global trade. The differential gives India a competitive edge, positioning it as an attractive sourcing destination for US apparel brands like GAP and Walmart, which currently rely on higher-tariff countries. For example, shifting production from Bangladesh (37% tariff) to India (27%) could yield significant cost savings for the US-based companies. We believe India could sustain and enhance its market positioning in world trade by focusing on a) negotiating tariff reductions through bilateral trade agreements, b) exploring alternative markets to reduce over-reliance on the US, c) strategic policy shifts such as zero-duty cotton imports, etc. On the flip side, higher tariffs could potentially dampen US consumer demand as a huge portion of the tariff costs may get passed on to the end consumer, resulting in apparel prices turning costlier. US companies may also ask Indian suppliers to partly absorb the higher costs, which would squeeze their margins, pushing them to focus on cost-cutting measures. Additionally, countries such as Turkey, Morocco, and Latin America, which have been spared from high tariffs, could emerge winners and attract shifts in apparel manufacturing. Despite near-term uncertainties, we are optimistic that a) strong demand visibility, supported by normalizing channel inventories at the global retailer level, comparatively lower tariffs, rising labour costs in Vietnam, ongoing political instability in Bangladesh, b) India's strong production base, and c) government support would cumulatively drive long-term growth in India's textile industry.

Impact on companies under coverage:

- Gokaldas Exports Ltd (GEXP):** North America is a primary focus market for GEXP that accounts for 60-85% of exports. We believe the 27% tariff would moderately impact US-bound shipments and likely offer a competitive advantage over Bangladesh, which faces higher 37% tariff. GEXP could thereby gain market share in the US apparel market.
- Welspan Living (WELSPUNL):** North America is a major market for WELSPUNL, commanding over 63% of its exports share. India is a leading supplier of terry towels and bed sheets to the US, with 43% market share in terry towels and 61% in bed sheets in value terms during CY24, as per the OTEXA data. India would have a competitive edge in home textile exports to the US, given the high demand for its products there and lower tariff rate. However, US as a top export destination (Home Textiles) for India could pose significant risks.
- Vardhman Textiles (VTEX) and KPR Mills (KPR):** Both companies have significant customer base in the US, which makes them susceptible to the impact from the tariff. However, India's lower tariff relative to competitors could help mitigate the loss in their market shares.

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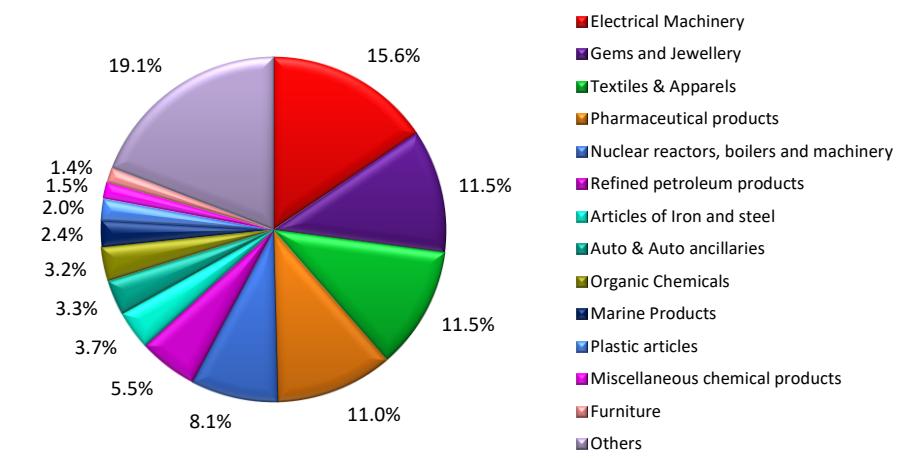
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Exhibit 1: Valuation Table

Company Name	Rating	Mkt Cap	CMP	TP	Upside (%)	PE (x)		EV/EBITDA (x)		ROCE (%)		ROE (%)		
						FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Gokaldas Exports	BUY	64	837	1141	36%	38.2	23.6	18.3	19.3	14.9	12.1	7.3	9.4	11.0
KPR Mill	HOLD	328	956	988	3%	36.5	27.0	24.2	24.9	18.9	16.9	19.3	23.2	22.5
Vardhman Textiles	BUY	138	471	588	25%	15.1	12.3	9.6	10.9	9.5	7.3	8.4	9.9	11.9
Welspun Living	BUY	125	124	176	42%	19.0	14.6	11.3	11.4	9.3	7.5	13.0	15.0	17.3

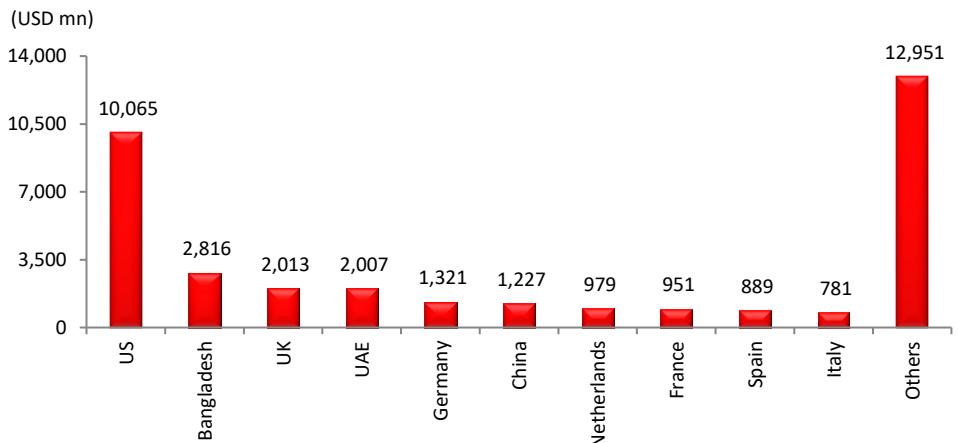
Source: Systematix Institutional Research

India's major exports to the US: According to the *Ministry of Commerce and Industry*, India's exports to the US in CY24 amounted to USD 80.77bn, with 15 major export categories accounting for 80% of this trade. Textile & Apparel exports (comprising textile articles, non-knitted and knitted apparels, carpets and other textile floor coverings) accounted for ~USD 9.32bn (~11.54%) of this trade.

Exhibit 2: India's major exports to the US (CY24) - Categories

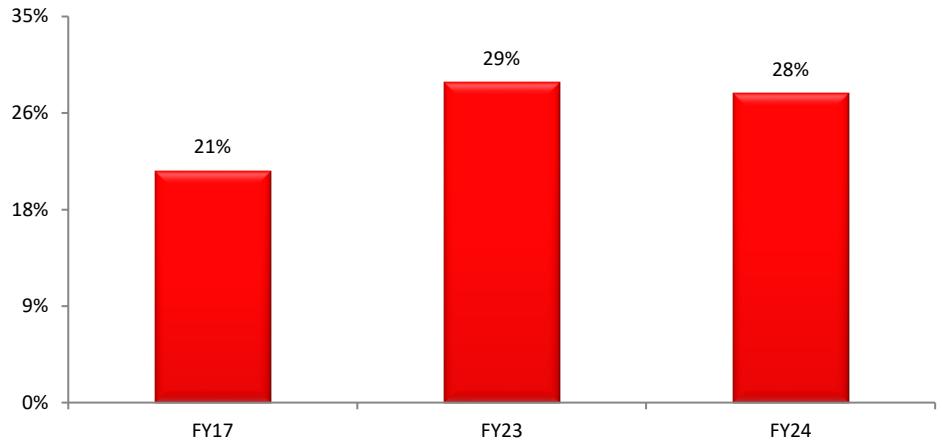
Source: Ministry of Commerce and Industry, Systematix Institutional Research

India's textile export dependence on the US vs other countries: According to the *Ministry of Commerce and Industry*, India's textile exports touched ~USD 36bn in 2023-24, of which, US accounted for ~28% (USD 10bn), a significant increase from 21% in 2016-17, rising steadily to 29% in 2022-23. The share of Indian textile exports to the US within key textile sub-segments is notable - 58% of carpet exports, 50% of other-made-up textiles, 44% of coated, covered, laminated textiles, and ~33% of knitted and non-knitted apparel and accessories. With the new 27% reciprocal tariff in place, India may face a potential decline in textile exports to the US, although the lower tariff rate compared to other major competitors could help India preserving its relative competitiveness in the US market.

Exhibit 3: India's textile exports to Top 10 countries in FY24 (USD mn)

Source: Ministry of Commerce and Industry, Systematix Institutional Research

The urgent need to realign strategically: The government and domestic textile players should realign their strategies and pitch to US retailers quickly, to leverage and capitalize India's differential tariff opportunity with global competitors. India currently lacks an efficient textile manufacturing ecosystem, which has resulted in customers moving to other countries like Bangladesh and Vietnam. Government's focus on building such textile hubs should help in capturing the incremental demand.

Exhibit 4: Share of US in India's total textile exports

Source: Ministry of Commerce and Industry, Systematix Institutional Research

Exhibit 5: US' share of key textile sub-segments in Indian textile exports

US share in India's textile exports	% Share
Carpets	58.0%
Made-up textile articles	49.8%
Laminated textile products	44.3%
Knitted apparels	32.9%
Non-Knitted apparels	32.1%
Wadding, felt, special yarn, twine etc	28.1%
Veg Textile fibres, yarns & woven fabrics	16.6%
Knitted/crocheted fabrics	14.5%
Special woven fabrics, lace, etc	14.4%
Silk	10.1%

Source: Ministry of Commerce and Industry, Systematix Institutional Research

Increased competitive edge over Bangladesh: Bangladesh's textile industry is the backbone of its economy, contributing 15% of its GDP and 80% of total exports. According to *Export Promotion Bureau (EPB)*, Bangladesh's total exports touched USD 55.56bn in FY23, with apparel accounting for nearly USD 47bn (10.27% YoY growth). Its primary export destinations include the European Union (EU), US, Canada, Australia, and Japan. However, with the US imposing 37% reciprocal tariff on Bangladeshi exports, US importers may shift their sourcing requirements to India, given its comparatively lower tariff burden.

Potential benefits of bilateral trade agreements and revision in existing duty structure: The ongoing negotiations for a bilateral trade agreement between the US and India could enhance India's position compared to competing countries. Revision in certain trade policies such as a zero-for-zero duty strategy in the textile sector could counterbalance the impact of tariff by eliminating the 11% import duty on cotton and significantly boost trade between the two nations.

Nearshoring could rise and benefit some regions: Tariffs could increase nearshoring, as countries like Mexico (due to United States-Mexico-Canada Agreement - USMCA), a notable exception to the tariff hikes, could potentially benefit from the shift. Other regions like Turkey, Morocco, and Latin America, too could see increase in apparel manufacturing, as these countries have been spared from the high tariffs.

Exhibit 6: Country wise tariffs

Countries & Territories	Tariffs charged to the US (Including currency manipulations and trade barriers)	US discounted reciprocal tariffs (Includes 10% baseline tariffs)	Countries & Territories	Tariffs charged to the US (Including currency manipulations and trade barriers)	US discounted reciprocal tariffs (Includes 10% baseline tariffs)
India	52%	27%	Kuwait	10%	10%
China	67%	34%	Kyrgyzstan	10%	10%
Bangladesh	74%	37%	Laos	95%	48%
Indonesia	64%	32%	Lebanon	10%	10%
Vietnam	90%	46%	Liberia	10%	10%
Thailand	72%	37%	Libya	61%	31%
Pakistan	58%	30%	Liechtenstein	73%	37%
Afghanistan	49%	10%	Madagascar	93%	47%
Albania	10%	10%	Malawi	34%	18%
Algeria	59%	30%	Malaysia	47%	24%
Andorra	10%	10%	Maldives	10%	10%
Angola	63%	32%	Mali	10%	10%
Anguilla	10%	10%	Marshall Islands	10%	10%
Antigua and Barbuda	10%	10%	Martinique	10%	10%
Argentina	10%	10%	Mauritania	10%	10%
Armenia	10%	10%	Mauritius	80%	40%
Aruba	10%	10%	Mayotte	10%	10%
Australia	10%	10%	Micronesia	10%	10%
Azerbaijan	10%	10%	Moldova	61%	31%
Bahamas	10%	10%	Monaco	10%	10%
Bahrain	10%	10%	Mongolia	10%	10%
Barbados	10%	10%	Montenegro	10%	10%
Belize	10%	10%	Montserrat	10%	10%
Benin	10%	10%	Morocco	10%	10%
Bermuda	10%	10%	Mozambique	31%	16%
Bhutan	10%	10%	Namibia	42%	21%
Bolivia	20%	10%	Nauru	59%	30%
Bosnia and Herzegovina	70%	36%	Nepal	10%	10%
Botswana	74%	38%	New Zealand	20%	10%

Countries & Territories	Tariffs charged to the US (Including currency manipulations and trade barriers)	US discounted reciprocal tariffs (Includes 10% baseline tariffs)	Countries & Territories	Tariffs charged to the US (Including currency manipulations and trade barriers)	US discounted reciprocal tariffs (Includes 10% baseline tariffs)
Brazil	10%	10%	Nicaragua	36%	19%
British Indian Ocean Territory	10%	10%	Niger	10%	10%
British Virgin Islands	10%	10%	Nigeria	27%	14%
Brunei	47%	24%	Norfolk Island	58%	29%
Myanmar	88%	45%	North Macedonia	65%	33%
Burundi	10%	10%	Norway	30%	16%
Cabo Verde	10%	10%	Oman	10%	10%
Cambodia	97%	49%	Panama	10%	10%
Cameroon	22%	12%	Papua New Guinea	15%	10%
Cayman Islands	10%	10%	Paraguay	10%	10%
Central African Republic	10%	10%	Peru	10%	10%
Chad	26%	13%	Philippines	34%	18%
Chile	10%	10%	Qatar	10%	10%
Christmas Island	10%	10%	Reunion	73%	37%
Cocos (Keeling) Islands	10%	10%	Rwanda	10%	10%
Colombia	10%	10%	Saint Elena	15%	10%
Comoros	10%	10%	Saint Kitts and Nevis	10%	10%
Congo (Brazzaville)	10%	10%	Saint Lucia	10%	10%
Congo (Kinshasa)	22%	11%	Saint Pierre and Miquelon	99%	50%
Cook Islands	10%	10%	Saint Vincent and the Grenadines	10%	10%
Costa Rica	17%	10%	Samoa	10%	10%
Cote d'Ivoire	41%	21%	San Marino	10%	10%
Curacao	10%	10%	São Tomé and Príncipe	10%	10%
Djibouti	10%	10%	Saudi Arabia	10%	10%
Dominica	10%	10%	Senegal	10%	10%
Dominican Republic	10%	10%	Serbia	74%	38%
Ecuador	12%	10%	Sierra Leone	10%	10%
Egypt	10%	10%	Singapore	10%	10%
El Salvador	10%	10%	Sint Maarten	10%	10%
Equatorial Guinea	25%	13%	Solomon Islands	10%	10%
Eritrea	10%	10%	South Africa	60%	31%
Eswatini	10%	10%	South Korea	50%	26%
Ethiopia	10%	10%	South Sudan	10%	10%
EU	39%	20%	Sri Lanka	88%	44%
Falkland Islands	82%	41%	Sudan	10%	10%
Fiji	63%	32%	Suriname	10%	10%
French Guiana	10%	10%	Svalbard and Jan Mayen	10%	10%
French Polynesia	10%	10%	Switzerland	61%	32%
Gabon	10%	10%	Syria	81%	41%
Gambia	10%	10%	Taiwan	64%	32%
Georgia	10%	10%	Tajikistan	10%	10%
Ghana	17%	10%	Tanzania	10%	10%
Gibraltar	10%	10%	Timor-Leste	10%	10%
Grenada	10%	10%	Togo	10%	10%
Guadeloupe	10%	10%	Tokelau	10%	10%
Guatemala	10%	10%	Tonga	10%	10%
Guinea	10%	10%	Trinidad and Tobago	12%	10%
Guinea-Bissau	10%	10%	Tunisia	55%	28%
Guyana	76%	38%	Turkey	10%	10%
Haiti	10%	10%	Turkmenistan	10%	10%

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Heard and McDonald Islands	10%	10%	Turks and Caicos Islands	10%	10%
Honduras	10%	10%	Tuvalu	10%	10%
Iceland	10%	10%	Uganda	20%	10%
Iran	10%	10%	Ukraine	10%	10%
Iraq	78%	39%	United Arab Emirates	10%	10%
Israel	33%	17%	United Kingdom	10%	10%
Jamaica	10%	10%	Uruguay	10%	10%
Japan	46%	24%	Uzbekistan	10%	10%
Jordan	40%	20%	Vanuatu	44%	23%
Kazakhstan	54%	27%	Venezuela	29%	15%
Kenya	10%	10%	Yemen	10%	10%
Kiribati	10%	10%	Zambia	33%	17%
Kosovo	10%	10%	Zimbabwe	35%	18%

Source: White House Press Release, Systematix Institutional Research

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